PROCEEDINGS

OF THE

ACADEMY OF POLITICAL SCIENCE

IN THE CITY OF NEW YORK

Volume XI] APRIL, 1925 [No. 3

POPULAR OWNERSHIP OF PROPERTY: ITS NEWER FORMS AND SOCIAL CONSEQUENCES

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE SEMI-ANNUAL MEETING OF THE ACADEMY OF POLITICAL SCIENCE IN THE CITY OF NEW YORK, MARCH 9, 1925

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THE ACADEMY OF POLITICAL SCIENCE

COLUMBIA UNIVERSITY

1925

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PREFACE

POPULAR OWNERSHIP OF PROPERTY: ITS NEWER FORMS AND SOCIAL CONSEQUENCES was the subject discussed at the National Conference which constituted the semi-annual meeting (forty-fifth year) of the Academy of Political Science, held at the Hotel Astor on March 9, 1925. The contents of this volume comprise addresses and papers presented at that meeting.

Three sessions were held, with the addresses and papers grouped under the following subdivisions of the general topic:

I. MORNING SESSION: *Trades-Union and Cooperative Ownership; Employee Participation in Ownership.*
II. AFTERNOON SESSION: *Customer Ownership and the Small Investor.*
III. DINNER SESSION: *The New Proprietorship and Its Effects.*

Because these subdivisions were largely for convenience, for the purpose of dividing the program into three sessions, and because nearly all of the speakers had something to say on all three of the above indicated subtopics, those demarcations have not been preserved in this volume, although the addresses and papers appear generally in the order of their presentation at the several sessions.

SIGNIFICANCE OF THE SUBJECT SELECTED

American business men and analysts of economic conditions have been aware for several years that a marked tendency toward certain forms of diffusion of the ownership of American industry has been at work; and at times figures have been published, usually of a fragmentary character, as to the actual or apparent extent of this change in ownership.

Happenings of possibly a far-reaching scope and consequence have thus been taking place, without attracting much public attention or any considerable amount of disinterested analysis and study. Nevertheless the known facts have evidenced what has been called "a silent but strong evolutionary

movement", amounting almost to a revolution in ownership; and Professor Thomas N. Carver of Harvard University, who had been a pioneer in perceiving that this movement possessed aspects which merited careful study, had said, some time since:

> Very few reformers, especially of the professional sort, know that this revolution is going on. Revolutions sometimes come in that way. The world quietly turns over while the professional reformers are barking at the moon. The real things are accomplished not by the people who think they are accomplishing great things; they are accomplished by people who do the day's work and do it well, who function efficiently in society and don't know always that they are revolutionizing the world. And this is that kind of a revolution.

Under all of the circumstances, the officers and trustees of the Academy felt that a beginning might well be made in the disinterested study of the significance and consequences of this democratic trend in proprietorship, and a Program Committee was appointed to develop a representative program on what was felt to be a topic fundamental and important in American industry and life.

The Academy was thus very glad to be the first disinterested organization to conduct a scientific and searching National Conference as to the probable effects of what has been and is taking place. As usually transpires in Academy meetings, many divergent points of view were presented, by men who were believed to be in possession of pertinent facts and of reasoned views and inferences concerning them. In inviting to its program men of opposite views and different experience, the Academy does not sponsor, or seek to advance, the views of any of them. Its only objective is to develop a *balanced* program and conduct a symposium which reflects a virtual cross-section of American public opinion and economic experience.

Features of This National Conference

The presiding officer at the morning session was Dr. Samuel McCune Lindsay, president of the Academy, who was warmly greeted upon his recent return from South America, where he represented the United States at several scientific, cultural and popular assemblages, by appointment of the United States Government. At the afternoon session, the chairman of the Program Committee presided. At the din-

ner meeting in the grand ballroom of the Hotel Astor, the presiding officer was COLONEL HENRY L. STIMSON, former Secretary of War, one of the trustees of the Academy.

An innovation made possible by modern devices was a feature of the dinner session. All of the addresses at this meeting were widely broadcast by radio, through the courtesy of W E A F and the American Telephone and Telegraph Company. One of the scheduled speakers was HERBERT C. HOOVER, the distinguished Secretary of Commerce, who early had taken the lead in the discernment and analysis of the economic and social tendencies under discussion by the Academy. Owing to a regrettable conflict in date with the important annual dinner of the Bureau of Standards, MR. HOOVER felt that he could not leave Washington to attend the Academy dinner. Arrangements were therefore made for him to address by radio both the Academy diners and the larger audience throughout the country.

As soon as MR. HOOVER finished his address to the Bureau of Standards, he went before a microphone installed in an adjoining room at the Wardman Park Hotel, in Washington. When COLONEL STIMSON finished his "introduction" of MR. HOOVER to the Academy diners, the Secretary of Commerce proceeded to address them. "The ingenious wires of W E A F" then relayed MR. HOOVER'S notable message to the great radio audience. Mechanically, it was a perfect performance. This was probably the first time that within the space of a few moments an orator has addressed two great audiences, more than two hundred miles apart.

THE REPRESENTATIVE ATTENDANCE AND INTEREST

The attendance at both of the day-time sessions was substantially above the average, both in numbers and in representative character. The dinner meeting brought out a large and brilliant Academy gathering, made notable by the presence of many of the active leaders of American enterprise and finance, especially in the industries to which the topic most directly related. The general interest in the topic was reflected in the fact that to more than a usual extent, members of the Academy came from distant points, in order to attend the sessions of this National Conference. The Academy is always glad to greet and welcome its members to personal

attendance and participation in the sessions. It realizes that inevitably a great number of its members, residing in communities remote from the City of New York, are unable to come to the meetings and are compelled to rely upon the complete reports given in the Academy's publications. The officers and trustees of the Academy have been gratified, however, by what has seemed an increasing desire of Academy members to come to New York occasionally for the Academy meetings. This is a most welcome and encouraging manifestation of the widespread interest in the conferences and discussions undertaken by the Academy.

Those who contributed addresses or papers at the respective sessions were as follows:

MORNING SESSION: *Trades-Union and Cooperative Ownership; Employee Participation in Ownership.*

DR. SAMUEL MCCUNE LINDSAY, who made an introductory address as chairman, is the president of the Academy of Political Science, and is professor of social legislation at Columbia University.

MR. ARTHUR WILLIAMS, who trenchantly outlined the fundamental significance of property ownership and discussed principally the growing participation of employees in the ownership of the industries of which they are a part, is a vice-president of The New York Edison Company, in especial charge of relations with consumers and employees. He has been a pioneer in the development of the policy of American public utilities as to their relations with customers and the public, and has dealt constructively with many knotty problems arising between employer and employed. During the World War, he was Federal Food Administrator for New York City. He is a fellow of the American Institute of Electrical Engineers.

MR. PIERREPONT B. NOYES, who discussed stock ownership by employees from the point of view of an experienced employer of labor and a convinced believer in cooperative proprietorship, has been identified with the Oneida Community, Ltd., at Oneida, New York, since 1895, and has been its president since 1910. He was assistant national fuel administrator during the World War, and more recently served as American member of the Interallied Rhineland Commission.

He made a most thoughtful contribution to the morning discussion.

Dr. Lewis Cecil Gray is the economist in charge of the Division of Land Economics, in the United States Department of Agriculture, and is the author of a recent and authoritative textbook on agricultural economics. He has long been identified with the development of the study of that science in America, and he presented a forward-looking analysis of farm ownership and tenure.

Mr. Albert H. Harris, vice-president and chairman of the important finance committee of the New York Central Lines, gave a graphic account of the diffusion of the stock ownership of that great transportation system, of course dealing particularly with the extensive stock sales to employees, patrons and small investors, during the past two years. Mr. Harris's participation in this morning conference was one of its memorable features; his concrete narrative and his mature conclusions were the products of much experience and first-hand observations, in the railroad industry.

Mr. Eustace Seligman gave a thought-provoking, perhaps prophetic, address on the relation of law to the modern developments in property ownership. His treatment was remedial rather than merely descriptive and historical. Many of his suggestions will challenge acceptance. They were tentatively broached, for consideration, by their brilliant author, who is a lawyer, of the firm of Sullivan and Cromwell.

Mr. Sidney Hillman was a pioneer in labor banking in New York City. He is the resourceful general president of the Amalgamated Clothing Workers of America and a leader in the directorate of the Amalgamated Bank of New York. In the difficult field of relationship between labor and capital in the clothing trades in the great urban centers, Mr. Hillman and his associates have given trial to many of the most interesting experiments in the labor movement. One of the first of these was labor banking, so it was natural that he was invited to discuss before the Academy the history of the labor banking movement in America. Many persons who reject utterly his economic and social objectives have found much to commend in the ideals which Mr. Hillman avows for his segment of organized labor.

Mr. Samuel W. Reyburn, president of Lord and Taylor, Inc., and of the Associated Dry Goods Corporation, and director of diversified business concerns of the first rank, opened the discussion at the morning session, and sounded a conservative and admonitory note, from his extensive experience, on the subject of stock ownership by employees. This great merchant, long a devoted friend of the Academy, made what must be recognized as an invaluable contribution to the conference.

Mr. Robert S. Binkerd presented a valuable statistical paper which was read only by title but served as the basis for a great deal of the discussion during the Conference. As a member of the Program Committee, Mr. Binkerd undertook to secure and compile dependable data as to the numerical extent of the increase in popular ownership of the major industries from 1918 to the end of 1924 and early 1925. Figures down to the present time had not hitherto been available, and this basic survey seemed a needed contribution to the present conference. Mr. Binkerd's figures instantly commanded nation-wide attention. Although prepared in a way which seemed to involve understatement, they revealed an unsuspected ratio of increase in popular ownership since the World War. Mr. Binkerd formerly was secretary of the City Club of New York, and now is vice-chairman of the Eastern Railroads' Committee on Public Relations.

Mr. Henry S. Dennison, who has been a leader in the development of workable systems of profit-sharing and the promotion of sounder relations between capital and labor, is the president of the Dennison Manufacturing Company, at Framingham, Mass. His paper on "The Employee Investor" embodied the fruits of a fine industrial experience.

Mr. George H. Soule, who brought the morning's discussion to a close, is director-at-large of the National Bureau of Economic Research, a director of the Labor Bureau, Inc., and a gifted member of the editorial staff of the *New Republic*.

Afternoon Session: *Customer Ownership and the Small Investor.*

Dr. Thomas N. Carver, who outlined generally the diffusion of the ownership of industry in the United States, is professor of political economy at Harvard University and was one of the first to discern and discuss the growing importance of this transition. He has written extensively upon economic and social problems, and was president of the American Economic Association in 1916.

Dr. William Trufant Foster dealt with one of the important phases of the topic, by way of keen analysis of the relation between the wider distribution of corporate securities and a sustained business property. Before he became the director of the Pollak Foundation for Economic Research, at Newton, Mass., he was the president of Reed College, at Portland, Oregon.

Mr. Frederick H. Wood, who gave an impressive and impartial account of the extent to which the popular ownership movement has affected railroad ownership and management, has been recognized for some years as one of the ablest lawyers representing western railroads before the Interstate Commerce Commission and the Courts. He has recently become a member of the firm of Cravath, Henderson and deGersdorff, in New York City. Previously, he was interstate commerce counsel for the Southern Pacific Railway.

Mr. F. L. Devereux, vice-president of the Bell Telephone Securities Company of New York, gave a concrete and detailed account of the development of the ownership of the Bell Telephone System in the United States. He has had a close relationship to that extensive growth, and he was able to outline vividly its incidents and its significance.

Mr. Robert Lynn Cox, long ago a staunch ally of Governor Hughes in the New York State Legislature and now a vice-president of the Metropolitan Life Insurance Company, dealt incisively with one of the often neglected aspects of the subject, viz., the extent of policy-holders' ownership and interest in property, somewhat indirectly through the investment of life-insurance funds.

Mr. Herbert C. Pell, Jr., formerly a member of Congress and now the chairman of the Democratic State Committee of

New York, returned to the Academy platform to give a pointed exposition of some of the disadvantages and dangers which seem to him to flow from the impersonal character of diffused ownership. His plea was for a return of the older order of personal leadership in American industry.

MR. A. EMORY WISHON, one of the outstanding industrial figures of the Golden West, could not come from California for this meeting but sent a thoughtful and well-penned paper on "Now and Tomorrow with Customer Ownership." MR. WISHON resides in Fresno, California, and is the chairman of the National Electric Light Association's standing committee on customer ownership.

MR. ARUNDEL COTTER, who closed the afternoon discussion, is a member of the editorial staff of the *The Wall Street Journal,* and has conducted many of that paper's industrial investigations.

DINNER SESSION: *The New Proprietorship and Its Effects.*

COLONEL HENRY L. STIMSON, who served efficiently as toastmaster, was Secretary of War in President Taft's Cabinet, and is a member of the firm of Winthrop and Stimson, and one of the trustees of the Academy.

MR. HERBERT C. HOOVER, who addressed by radio the Academy diners and the "invisible audience", is Secretary of Commerce and one of the foremost interpreters of American industry and its relationship to government.

MR. HOWARD T. SANDS is a member of the firm of Charles H. Tenney and Company, Boston, and has had extensive experience in utility operation, management and financing. He is a vice-president of the National Electric Light Association, and in a direct, ingratiating manner, he indicated the conclusions of a ripe business judgment and experience, as to the matters under discussion.

MR. DONALD R. RICHBERG, who gave a keen and questioning analysis of customer and employee ownership, has been chief counsel for the railway unions in strike litigation, and is the counsel for the City of Chicago in its public utility litigation. For several years he served as Master in Chancery of the Illinois Circuit Court, for Cook County. He is a frequent

contributor to the *Harvard Law Review* on the legal aspects of social and economic questions and is one of the recognized leaders of progressive thought and action. His witty and entertaining "fable" of "cooperating with competitors", as he views the so-called "popular ownership", was one of the "high spots" of the meeting.

MR. WILLIAM A. PRENDERGAST brought the conference to a climactic and stirring close, with an eloquent address on the dinner topic, from the point of view of state regulation. MR. PRENDERGAST is a business man who made a national reputation as an orator before he entered public office. He has been a gallant fighter in many progressive and public causes. As Comptroller of the City of New York, he was an outstanding figure in the administration of Mayor John Purroy Mitchel. By appointment of Governor Nathan L. Miller, he has been since 1921 the Chairman of the Public Service Commission of the State of New York, and has brought new distinction to that important office.

Many of those present felt that MR. PRENDERGAST, as one of the leaders of American regulatory policy, had summed up the fundamental significance of what has been taking place, for better or for worse, in American industry, when he said, in closing:

> That the new popular proprietorship of industry means the passing of those giant characters who controlled corporations in order to protect and advance their own fortunes may be taken for granted. The changing order in their cases commenced when the regulatory principle was applied to our law, and a figure set beyond which their earnings would not be permitted to go. In place of these captains of a vanishing race of financiers, has come and will continue to come a band of able, alert, brilliant men, who will guide the corporations of today and of the future for the pride of scientific achievement, the opportunity of administrative prestige and the glory of service. They will be captains, not of wealth nor political power, but of that newer order, in which the principles of democracy will be carried to more progressive stages of industrial, social and political usefulness.

THE COMMITTEE ON PROGRAM AND ARRANGEMENTS

The president and trustees of the Academy desire that there be incorporated in this prefatory note an expression of their hearty appreciation, not only of the presence and participation of the distingushed speakers who constituted this program, but also of the helpful cooperation of the very representative

Committee on Program and Arrangements, whose efforts contributed greatly to the success of this National Conference:

John G. Agar
James E. Allison
Charles W. Appleton
Arthur E. Bestor
Robert S. Binkerd
O. E. Bradfute
Nicholas F. Brady
Peter J. Brady
Cyrus S. Ching
Barron G. Collier
Robert E. Coulson
Seymour L. Cromwell
Hugh Frayne
P. H. Gadsden
Walter P. Gardner
William T. Grant
Edward N. Hurley
Raymond V. Ingersoll
H. W. Jervey
F. Ernest Johnson
Thomas W. Lamont
Sam A. Lewisohn
Frank O. Lowden
Howard Lee McBain
Walter Gordon Merritt
Ogden L. Mills
Parker T. Moon
Randall Morgan
Dwight W. Morrow
Michael J. Murphy
Floyd B. Odlum
Ray Palmer
Thomas I. Parkinson
Walter Rautenstrauch
George Roberts
Harold J. Roig
E. R. A. Seligman
Albert Shaw
Bernard L. Shientag
Francis H. Sisson
Matthew S. Sloan
Herbert B. Swope
Samuel Thorne
Paul M. Warburg
William B. Warner
Arthur Williams
Leo Wolman

William L. Ransom, *Chairman*
Samuel McCune Lindsay, *Ex-Officio*

The Function of The Academy Meetings

"Why do you let the wrong side of public questions be presented at Academy meetings? Why do you select as devil's advocates men who will plead his case so brilliantly and persuasively?" These and similar questions are often addressed to members of the Program Committee by persons who find that some address or paper has made a forceful presentation of views partly or wholly opposed to their own.

Such questions reveal a lack of realization of the historic functions of the Academy of Political Science and a lack of realization of the purpose of its current discussions. The

Academy does not know, and does not try to determine, what may be the "right" or the "wrong" *side* of the vital questions dealt with at this and other Academy meetings. Perhaps these questions have not as yet any "side" which might be resolved by so simple a formula.

In any event, the Academy, as a national organization devoted to representative and open-minded discussion, does not try to decide or advise as to the "right" or the "wrong" of the matters discussed. To undertake any such decision, in the Program Committee for this meeting, upon any important phase of the topic considered, would almost certainly have disclosed such a diversity and divergence of views and interests as would probably have made any determination even by a bare majority as impracticable as it would have been undesirable.

All that the members of the Program Committee for an Academy meeting agree upon is a *topic* which they deem worthy of fair, representative, open-minded and thorough *discussion*. Then the members of the Committee cooperate in the development of what they try to make a balanced program which insures a reasoned and constructive presentation of representative points of view.

One of the functions of the Academy is thus to encourage honest, reasoned convictions to express themselves courageously in the open and thus to subject themselves to the analysis of discussion and the ultimate judgment of public opinion. Erroneous and unsound views are, we hope, expressed in every Academy meeting. Often the best way to deal with errors and fallacies on public questions, is to persuade their sponsors to try to maintain and justify them before a disinterested but frankly questioning audience, such as is afforded by the Academy audiences and the Academy readers. Much more nearly a common ground often develops from such discussions.

Some speakers at Academy meetings have strongly intrenched convictions, which they state with great earnestness and sincerity. They see and state only one "side" of the matters under discussion. They are "for" or "against" some proposition which they set up for discussion. Very commonly, however, more observant and harmonious minds reveal themselves in our programs and fairly act as moderators

between disputatious views and interests. Not infrequently these open-minded and fair-minded spokesmen are men whose close relation to supposed special interests, on the side of capital or of labor, might be thought likely to lead to a narrow advocacy rather than a fair analysis. This quasi judicial statement of the facts and evident desire to be fair as to the inferences therefrom, were strikingly manifest in many of the addresses and papers at this meeting.

The Making of an Academy Program

The characteristics of the Academy tradition were thus adhered to acceptably at this semi-annual meeting. Divergent views were espoused with much spirit, but with the utmost good feeling; and the social functions incident to the Academy sessions were carried on with the same cordiality, although many of the men thus brought together were conspicuous leaders in what have sometimes been regarded as opposite and antagonistic organizations and movements.

As always, it came about that some angles of viewpoint and experience, and some phases of the general topic, which the Academy would have been glad to have included in the program, were not represented. As is usually the case, this was not the fault of the Academy or of its Program Committee. Invitations were extended which could not be accepted by all of those whose presence and participation were earnestly desired. There were many absences in the South, in California, and in Europe, during early March, and there always are conflicting engagements, because of corporate meetings and other organizations in session.

At this meeting, the non-representation of one of the important groups in American industrial life came about through circumstances of a different character. For many years, the Academy has repeatedly welcomed to its platform Mr. Samuel Gompers and other outstanding figures in the American Federation of Labor. At almost every meeting, the Academy has had the aid and counsel of representative members of the Federation, as members of the Program Committee. At the annual meeting of the Academy last November, where the topic was "The Future of Prices At Home and Abroad", it was especially desired to include in the program a presentation of the point of view of the Federation and its banking execu-

tives, with respect to the credit and wage situation, as affecting the probable trend of prices.

The annual meeting of the American Federation of Labor was in session in El Paso, Texas, at the time of the November meeting of the Academy. The leaders of the Federation, including the president of the Federation Bank of New York, were of course in El Paso. The vice-president of the Federation Bank (MR. MICHAEL J. MURPHY) was accordingly invited to present the point of view and experience of labor banking, as to the matters under discussion at that session. In that representative capacity, MR. MURPHY made a significant and acceptable contribution[1] to the November meeting.

In the preparation of the program for this (March) semi-annual meeting, several representative leaders in the American Federation of Labor accepted membership on the Program Committee. MR. WILLIAM GREEN, the successor of MR. GOMPERS as president of the Federation, was invited to speak at the dinner meeting, and he had indicated a hope and expectation that he would be able to decide to accept, as soon as the February meeting of the Executive Committee of the Federation should close its sessions at Miami, Florida. The president of one of the influential unions in the Federation and the president of the Federation Bank of New York were also invited to speak at the day-time sessions, concerning trades-union banking and other ventures of trades-unionism in the ownership of industry, insurance and finance as well as concerning employee and customer participation in ownership. An invitation to speak on the labor banking movement in America was also extended to MR. SIDNEY HILLMAN, president of the Amalgamated Clothing Workers of America and organizer and director of the Amalgamated Bank of New York, which had been a pioneer in the labor banking field.

In view of this invitation to the director of the Amalgamated Bank of New York, the president of the Federation Bank of New York was of the opinion that it would be improper for him or for any other representative of the American Federation of Labor to address this meeting of the Academy. He expressed the opinion that MR. HILLMAN'S views as to Soviet Russia were such as to compel this reluctant conclusion.

[1] PROCEEDINGS OF THE ACADEMY, Vol. XI, No. 2, 1925, page 172 *et seq.*

He accordingly declined the Academy's invitation, and communicated his action to the other representatives of the Federation, to whom invitations were outstanding. Their declinations were subsequently received.

The fact was that the Academy had invited MR. HILLMAN to speak on the history of the labor banking movement in America, without making any effort to ascertain his *views* on Soviet Russia or on any other subject, including the subject on which he was to speak. MR. HILLMAN had accepted the invitation without making any similar inquiry of the Academy. It was known to the Academy's committee that MR. HILLMAN had had *experience* in the labor banking movement, and that he was the leader and spokesman of a numerous element in organized labor. These facts seemed a sufficient reason for inviting him to speak on the labor banking movement in America, and it never occurred to the committee to inquire whether or not his views as to Soviet Russia approximated those of the distinguished Chairman of the Committee on Foreign Relations, in the Senate of the United States. In fact, the Program Committee omitted entirely to inquire as to the views held concerning Soviet Russia and a wide variety of vital topics, by any of the speakers invited to discuss the topic for this March meeting.

The committee of the Academy of course regretted the absence of Federation leaders from this program. With all respect, it could not uphold the point of view on which the initial contention was based. Without in any way questioning the right of any leader of American industry to refuse to participate in any program, because of another man's participation or for any or no other reason, the Academy must of course adhere to its long tradition of an open forum and to its policy of inviting to its platform men whose experience and information are believed to be such that they can make a contribution to the subject under discussion. If they possess experience and information of this character, and if they have demonstrated an ability to discuss that subject in a reasoned way, along lines consistent with American institutions and America's political and industrial democracy, the Academy welcomes them to its platform, without scrutinizing their views, at least as to subjects which they are *not* invited to discuss, and without questioning their identification with unorganized labor,

the Federation of Labor, some other branch of organized labor, Wall Street, Main Street, big business, little business, farmer, producer, consumer, or academic circles. The Academy selects *speakers,* not *views,* and does not sponsor their views even on the subjects under discussion, much less on any others.

On the vital subjects dealt with in its meetings, the Academy seeks such a representative presentation and discussion as will, in the judgment of its officers and trustees, add to the information conveniently available for popular use and aid in the development of a reasoned public opinion, along lines four-square with American institutions. Whether MR. HILLMAN'S address before the Academy came within those specifications, each reader may best judge, upon reading and considering its subject-matter hereinafter.

It remains to be added that despite the regrettable declinations to speak, the whole episode was conducted with good spirit and due sense of proportion, by the labor representatives concerned. None of the local representatives of the Federation resigned from the Program Committee, and nothing transpired to end the cordiality of cooperation which has prevailed in the past.

IN CONCLUSION

With respect to the social, economic and political consequences of the widespread diffusion of the ownership of corporate securities and other forms of property, it may well be doubted whether the excellent addresses and papers in this volume constitute much more than a ***beginning*** of consideration. The matter has many aspects which could not be thoroughly gone into at this conference; a great "economic revolution" could hardly be charted and encompassed in a single day. Nevertheless, the Academy is glad to have played a part in making a beginning of disinterested and searching study of what seems likely to prove to be one of the most significant developments of America's industrial democracy.

THE EDITORS.

THE ECONOMIC REVOLUTION IN THE OWNERSHIP OF PROPERTY IN THE UNITED STATES [1]

SAMUEL McCUNE LINDSAY
Professor of Social Legislation, Columbia University
President, Academy of Political Science

THE forms which the ownership of property takes in any society are of fundamental importance in determining its social and economic institutions. Public policy which finds its best expression in legislation in a democracy is largely determined by the prevailing type of property ownership. Thus the traditions and interests of a predominantly land-owning population in England, only slightly modified by those of the smaller share of productive capital engaged in industrial and trade enterprise at the time of the founding of the American colonies, are the basic factors underlying the English common law and that body of English statute law which had a profound effect upon our early constitutional history and the foundations of our American constitutional system, and indeed of the still broader institutions of American social life.

Many changes wrought by American experience expressed in the federal Constitution and the Bill of Rights embodied in the first ten amendments were due to the smaller proprietorship of land in the United States as compared with the larger landed proprietorship in England. From 1789 down to the new industrial era following the Civil War the productive capital of the country was in the hands of small proprietors mostly in the form of land.

The growth of industrial capital in the form of joint stock ownership during the last fifty years has been until very recently characterized by comparatively narrow holdings in increasing aggregations in few hands. Even land holdings for productive purposes during this period showed a tendency toward larger rather than smaller proprietorship.

The economic revolution that has taken place almost unnoticed, and apparently with increasing rapidity in each suc-

[1] Address of the Presiding Officer at the opening of the first session.

cessive year since the World War is the trend back to a generally diffused small proprietorship of the productive capital of the country. The facts are only partially known or ascertainable from existing data reported. The Program Committee of the Academy was able from its preliminary inquiries to ascertain sufficient data to justify the conclusion that a far-reaching change had already taken place and was proceeding in increasing volume and with important ramifications in our economic life, and that it was high time to collate this with such information as could be secured at once, to collect further data, and to invite public attention to the interpretation of existing knowledge on the subject in order that a fundamental economic change or development may be guided and its effects considered in their relation to the public welfare.

All past experience must lead us to appreciate the fact that so momentous a change as that which even the superficial evidence at hand shows is taking place in the stock ownership of securities, especially in public utilities and some of the largest industrial enterprises of the country, will soon make itself felt in decisions of public policy affecting our social life. Is it not wise therefore to study the facts, get more facts and begin to evaluate the probable effects?

There is one aspect of the movement toward the wider diffusion of ownership or investment interest, whichever you prefer to call it, that ought to be of special interest to members of the Academy, and indeed is an added reason for the public discussion of the topic of this meeting. That is the fact that any economic tendency is apt to drift into the hands of, or fall gradually and perhaps unconsciously under the leadership and domination of, a class or group which derives some special advantage from its control, and the public loses the advantages which it might derive from the movement and to which it is entitled if it is controlled and led by an enlightened public opinion. It requires no unusual imagination to see a wider diffusion of stock ownership growing and perhaps artificially stimulated as the result of the efforts of an ultra-conservative group of capitalists and investors who seek thereby to dull the public conscience and silence, through a false and narrow economic sense of self-interest in ownership, the individual who would protest against abuses in the management of capital or demand its regulation in the public interest. Such a fate

would bring any economic movement, however pregnant with possibilities for good, to a speedy termination. No less disastrous to the progress of the movement and its public usefulness would be the domination of the movement by a group who sought to use the wider diffusion of ownership in the expectation (which is likewise economically fallacious) that it will lead automatically to the full control and democratization of industry by the workers. The more the facts are studied disinterestedly by such persons and organizations as are represented in the Academy of Political Science and in this first National Conference devoted exclusively to this subject, and the more the effects and social consequences of the wider diffusion of stock ownership are considered objectively and scientifically, the greater will be the salutary control of an informed public opinion and the guidance of this movement into channels of greatest public usefulness.

I should long since have pointed out what some of these effects may be along broad general lines, especially in connection with the topic we are about to discuss at the first session of this Conference, which is "Trades Union and Cooperative Ownership; Employee Participation in Ownership." The survey and interpretation of facts will be the task of distinguished specialists, most of whom have been identified in an authoritative way with the movement itself, as these facts are brought out in the program of this first session and in the discussion of the sub-topic. The extent and character of the wider diffusion of stock ownership as it may affect the stimulus to thrift and saving and, therefore, determine the rate of increase of savings that are available as additions to the productive capital of the country, is a point of prime importance. We cannot perhaps discuss here the broader economic questions of the effect of the increase of capital upon employment, wages and the share of labor in production and the social surplus. There is a group of economic problems of greater concern to trades unions and wage-earners underlying what some economic writers have denominated the fallacy of saving. That discussion may be fundamental to the topic we have in hand, but it would carry us too far afield at the outset, and I think we can very much more profitably confine our discussion now at the first examination of the facts, altogether too meager for exhaustive analysis, to a consideration of the security and rewards for saving which the new stock ownership may offer.

A second important consideration that should be kept in mind in this preliminary examination of facts and tendencies is the economic security of the worker himself, and not merely that of the investment of his savings, and the bearing which this has upon the possibility of saving and the desirability of small stock-ownership holdings, either in the industries for which he works or in those which supply his other needs than that for the employment of his labor. Closely related to this point is the question of how far common stock ownership is a practical means or the best way, if not the only way, for the wage earner to secure a better position in distribution, or in other words a larger share of the social surplus created by successful production.

I presume that we might do well to keep in mind many other factors in the economic analysis and interpretation of the facts concerning the trend toward small proprietorship in the joint stock ownership of property as related to trade unions and co-operative ownership and to employees' participation in ownership. There is, of course, the relation to wages and compensation in general upon which such small proprietorship must have a bearing and the further important relationship to the bargaining power and position of the wage-earner in the competitive struggle. But I am convinced that the emphasis in this discussion, necessarily of a preliminary character, should be laid upon the accuracy of the facts and the extent and character of the movement, before we proceed too rapidly with the theoretical discussion of its significance.

We need not be disturbed by the fact, very patent at the outset, that the new ownership that we are discussing is so different from the ownership of property in the sense in which we have been accustomed to think of it. The legal aspects of the problem, which are to be considered by one of the speakers at this session, are of course important, and here the distinction between the ownership of a house, of a piece of land, of a horse, of an automobile or of any form of physical property, and the rights and duties which such property imply, and the ownership of a share of stock, will doubtless be considered. The movement which we are discussing is not less significant and important if we think of it in terms of the diffusion of interest in industry and the diffusion of investment of savings than it is if we think of it solely in terms of ownership in the

traditional sense. The economic revolution that has taken place is a no less significant and highly important change in the one case than in the other. That aspect of the economic revolution which has to do with employee participation, trades unions and cooperative ownership of the productive capital of the country, is one of the most important parts of the general topic of this Conference and the one to which we are now invited to devote our attention at this session. It will undoubtedly raise questions which ought to challenge our best thought as regards interpretation of economic events that affect all business relations and also as respects the basis of a sound economic philosophy for the individual wage-earner and small capitalist and of society as a whole in the determination of wise public policies.

LABOR'S SHARE IN OWNERSHIP

ARTHUR WILLIAMS
Vice-President, New York Edison Company

As the first speaker in this notable conference, I may appropriately express what I am sure is the keen gratification of the business men of New York City and the nation, that this great Academy has seen fit to take up this fundamental topic for an adequate discussion in your semi-annual meeting. I have sometimes felt that almost inevitably in organizations of this character, many programs deal with palliatives and explanations, rather than basic remedies, for the existing conditions which leave the way clear for recurring periods of industrial and social unrest.

In this present program, it is easy to see that you are trying to grapple with fundamentals, looking for essential justice in our industries, and I congratulate the president and trustees upon this important advance. What we really need in America is something *dynamic* which will help to cure and not merely tend to explain. This something, I have long felt, is that we shall give to the great body of workers in this country —not "give" in any sense of philanthropy or charity but in the substance of right—some monetary part or its equivalent, and some saving sense of proprietorship, in the country's progress and productive enterprises from year to year.

The detailed tasks of restoring to American wage-workers a rightful and ingrained sense of sharing in ownership, rest of course with the officers and directors of our industrial enterprises and with the workers themselves. Beyond this, however, I think that this important and conserving movement must be visualized by just such organizations as this Academy, giving the reasons on the one hand and the objectives and the ease of accomplishment, as shown by actual experience, on the other. It seems to me that such organizations as this must frankly instill the realization that there is a social obligation upon us all to provide, not only fair standards of living while working and reasonable protection against the disabili-

ties of old age, sickness, and industrial accidents, but also a conserving sense of ownership and participation in ownership of property and productive enterprise itself. There is nothing, however, in the general subject of this meeting or in the following discussion which should be considered as advocating the nationalization or equal distribution of property or wealth. On the contrary, I believe that great wealth in the hands of either an individual or a corporation has been one of the nation's greatest blessings. Increasingly, possessors of great wealth give every indication of realizing that because of its possession, they are trustees of human welfare and advancement in many directions.

As an example consider how the wealth of Mr. Rockefeller, to a very great extent and under wise guidance, is being and always will be devoted to public welfare and service. For another example, make an evening visit to any Carnegie Library and watch the men and women, representative of many races, creeds and colors, seeking information as part of their education, as well as mental relaxation. Many other possessors of great wealth—too numerous to mention here—are also rendering far-reaching public service. Consider also what many of our great corporations are doing in the public interest which could not be done without a superior degree of financial strength. Take the service of many kinds rendered their employees by the United States Steel Corporation, the Standard Oil Company, the Metropolitan Life Insurance Company, or the Consolidated group of gas and electric utilities of our own city. The rapid development of "personnel" work as an executive and administrative function—a feature now very generally found in well conducted corporations—offers an example of a further and very vital effort to serve and improve the human element in industry.

None of this human element—this development towards a higher civilization which eventually will reach the daily lives of every one living in the Republic—would have been possible through any plan ever suggested or put to practice under any system of nationalization of property or its equal distribution. On the contrary, I find myself unable to mention a single instance of human welfare service in which our government as such has taken an initiatory part. The field of theory, research and preliminary or experimental application, has been

left to individuals severally or united into corporations possessing large financial resources. Why should we not render unto Caesar that which belongs to Caesar, and give these facts their proper weight in our economic and social structure?

If the few—comparatively speaking—who have acquired a substantial measure of wealth have used it generously and wisely upon the whole, why is not aid and encouragement, to the end that every worker of the nation control at least a moderate extent of personal property, wholly admirable as an objective? Personally, I am of the opinion that possession of property is as important from a national, civic, and industrial standpoint as the possession of an education itself—it is, in fact, part of that education. However, widespread individual property ownership must be accomplished only through the workers' own efforts. The nationalization or equal distribution of property, according to a political theory which is being widely discussed, would take wealth from those who have it and divide it more or less equally among those who have nothing. The system we advocate provides that those who now possess wealth shall continue to do so, with an even greater degree of security; and that those who do not own property in some tangible form shall be aided and encouraged to acquire it—but, as before stated, only through their own efforts.

The men and women who work and yet own and possess nothing which they recognize as property—there are still many millions of them in our country—are the most receptive soil for the seeds of discontent and destructive radicalism. Whatever happens—they hear from the professional or political demagogue—can only be to their advantage and that of their families, for they have nothing to lose and everything to gain. It has been said that in this country there are between eight and ten thousand publications—printed in every language excepting Chinese and Japanese, and having in the aggregate a very large circulation—preaching destructive theories against private ownership of property and against our present forms of government. The result of the last national election, indicating the existence of a group of between four and five million voters, with seemingly very radical and even destructive views, to which obviously many additional groups of non-voters must be added, is not reassuring; and no time

should be lost in removing the underlying causes for the evident discontent and restlessness existing in many parts of the nation.

That the causes of discontent and restlessness can be removed largely, if not entirely, there is no reason to doubt; but this object cannot be accomplished by kind words or fine phrases, or moral precepts alone. The cure can only be brought about through constructive and economic agencies, and upon a basis of faithful service and industrial justice.

Every faithful worker an owner of property or "every worker a capitalist" may sound like a very startling and radical theory; but, in my judgment, it is a promising cure for social and industrial discontent, and a counter-weight against the extremely destructive tendencies so evident in many directions. As a definite objective, the theory has been adopted by the great Steel Corporation, the Standard Oil group, the Consolidated gas and electric utility group of New York City, the public utilities, including the railroads, of many sections of the country, and by many other large groups and institutions—again mentioning but a few.

Such organizations as these, directed by most expert and highly developed mentalities, may be accepted as safe guides along the highway of social and economic development of our industrial and commercial life. One cannot err in accepting their judgment concerning the correctness and desirability of such methods of bridging the much-too-wide gap between the so-called antagonists, "capital and labor".

Although I think the development of employee and customer ownership is of even greater importance in the manufacturing industries than in the public utilities, may I divert for a moment to refer to the experience in this relationship of the Consolidated Gas Company of New York and its affiliated gas and electric companies?

In 1922, the trustees of the Consolidated Gas Company decided upon an issue of $15,000,000.00, aggregate par value, participating preferred stock for sale only to employees and customers of that company and its affiliated companies. At that time the company had about 12,173 stockholders, the average holding of each in common stock being about 205 shares.

At the beginning of 1925, the company had more than

60,000 shareholders, about 24,209 being owners of the common stock—an increase of 12,036, almost 100 per cent, in the common stock ownership alone. Employees to the number of 11,345 and consumers numbering 25,844, an aggregate of 37,189, owned the preferred stock. The average holding of each *customer* shareholder is about nine shares of $50.00 par value; of each *employee* shareholder, about three shares.

Thus of the 26,107 employees of the Consolidated Gas Company and its affiliated organizations no less than 11,345, or 43.45 percent, are now participants in the ownership of the stock of the parent company. Their dividends, as likewise those of customer owners, increase ratably with the dividend rate on the common stock.

Many of the industrial groups, the banking institutions and public utilities which have sold stock on favorable terms to patrons and employees, have refrained from placing restrictions on the resale and transfer of such stock. They have left their employees and patrons free to determine whether they, for any reason, would retain or sell the stock so acquired. In at least some instances, this has meant that stock subscribed for liberally by employees and patrons has been resold and has thereupon passed into the hands of owners desiring to accumulate it for various purposes.

This was not the policy adopted by the Consolidated Gas Company. In the first place, no employee or customer was or is permitted to acquire and own more than twenty preferred shares, each of a par value of $50.00. In the second place, no consumer or employee owning shares of this stock was or is permitted to sell and transfer it, except to some other customer or employee not already owning as much as twenty shares. If made salable without restraint, it would quickly be accumulated for investment purposes. The Consolidated Gas Company has steadfastly refused to countenance any such concentration of ownership and this stock remains scattered in the hands of its employees and patrons.

Perhaps it should be explained that the term "capitalist," as used here, includes anyone who possesses an insurance policy, a savings-bank account, a single share of stock, or a bond, however small, or, even better, an equity in his home. In this connection, the largest property-owning group is composed of savings-bank depositors and holders of life-insurance

policies. But do any considerable percentage of this group realize that the value of their insurance policies is dependent directly or indirectly upon the stability of the vast properties which so many agitators seek to destroy? The president of one of our great insurance companies has been making a written effort of the greatest national importance to have his policy-holders realize that they are the real owners of more than a billion and a half dollars in assets, invested in land, in buildings, in railroads and public utilities, through ownership of the mortgages and bonds belonging to their company. Insurance companies and savings banks—neither of which could be charged with any interests harmful to their policy-holders and depositors, or to the general public—reach every section and have a closer relation with the business and home life of the country than any other industrial or commercial group and thus have an extraordinary opportunity to inform the workers of the country of the extent to which they now are owners of property even though it is not in their possession or under their immediate control.

This question of widespread property ownership should be considered from more than the individual or social standpoint. Nations, like individuals, are subject to economic laws. With a large percentage of property-owning workers, it would be obviously to their interest to produce as much and as well as they are able—an industrial condition which would insure the highest degree of perfection at the lowest obtainable cost in both production and distribution. It has been estimated that, in our industries, preventable inefficiency of labor and the breakage of materials represent an average of between twenty-five and fifty per cent of the production cost. A very small percentage of normal labor costs, used wisely by a modern personnel administration, will transform an entire force of slow or discontented workers into an equal number of enthusiastic "partners" among whom the service of allies will be substituted for service of employees—the former giving as much as possible; the latter, often, as little as possible.

From a social standpoint, take the difference—no less real because it is not altogether tangible or material—between the social and civic background of the man who is in the property-owning class and that of his fellow worker or neighbor who owns nothing. In each case, consider the resultant sense of

security or insecurity which pervades the entire family, from the wife and mother to the children who are today potential factors for good or evil in the future of the nation. For a moment, let us imagine ourselves and our families in the place of each. With property ownership and a free opportunity to acquire more comes the dawn of a new day. A habit of thrift is established, and self-denial, through which property is acquired, leads to as much pleasure and far more permanent happiness than any habit of extravagance or thoughtless living can ensure.

Perhaps the most important item in the list of possible property possessions is a home. Owning a home, acquired with the assistance of a building loan organization or by any other means, gives every member of the family a highly to be desired *esprit de corps,* and a personal and family feeling of social and economic responsibility far beyond anything attainable as tenants of landlords. A feeling which makes for better workers and citizens. A short time ago, as part of an address delivered in London, Sir Kingsley Wood, Parliamentary Secretary to the Ministry of Health, declared: "We must encourage private enterprise, and especially what we would call 'owner-occupiership'; we believe", he added, "that the more people own their homes, the better it will be for the State."

Permit me to cite another New York example: About twelve years ago, for the purpose of aiding its employees to secure homes, The New York Edison Company organized a Savings and Loan Association. Its own employees and those of all the affiliated organizations were eligible for membership, subscriptions being deductible by the paymaster on signature to an order stating the amount to be deducted, the company providing the bookkeeping and accounting, and guaranteeing to its employees the safe keeping of their deposits. Since organization, the employees have paid into the treasury \$8,767,-292.02. In a single week during 1924 the aggregate of these deductions amounted to \$17,942.25. To December 31, 1924, 7,034 employees have opened accounts in the Association, and 832 homes have been purchased. To acquire these properties has cost the companies only the liberal provision of facilities, yet I am of the opinion that the company's own resulting values in its public service are even greater than the value of the homes so acquired and owned by its employees.

From the standpoint of a large employer, the field of "personnel" appears to be divided into two major parts:

(a) Employee relations, which include vacations, employee recreational organizations, sickness and accident allowances, group life insurance and pensions or service annuities. This group is usually supported largely if not entirely by the employer as part of the cost of labor. Very liberal provisions for all the items mentioned here would probably add less than three per cent to labor costs.

(b) Thrift assistance, whereby, through deductions from the pay envelope, the employee becomes the possessor of some form of security, or the owner of his home under the usual building loan policy, which also provides a savings institution from which money saved may be readily withdrawn to meet any emergency. Here the contribution by the employer is simply the provision for bookkeeping or accounting, but no part of the cost of the property acquired by the employee.

It is not enough to preach thrift; the employee must be helped to acquire the habit of thrift. In order to bring this order of things about, the employee is encouraged to empower his employer to deduct a definite sum from the pay envelope and place it to his credit in absolutely safe keeping until the time when a desirable investment may be made. The importance of such assistance cannot be overstressed. The employee never sees the money deducted, and is, therefore, without temptation to spend it. He rapidly adjusts his habits of expenditure to the sum he receives and so becomes a methodical saver and investor. Once the worker secures all he earns the temptation of spending becomes very strong and difficult to overcome. To deposit small savings in a bank or trust company is an inconvenience, sometimes of considerable extent. It would seem also that to most men and women there would be some disinclination to visit the usual banking office to make a small deposit—perhaps fifty cents or a dollar—amid surroundings indicating great wealth, with, perhaps, the added deterrent of an unsympathetic attitude on the part of the bank's representative, accustomed to receive large sums as deposits, towards those who are compelled to accumulate with very small savings.

England, alarmed now as never before by the menace of the combination of unemployment, discontent, and destructive radicalism, is moving as a nation to correct these conditions at least in part through workers' property-ownership. If this is desirable under extremely disturbing social and political conditions, why is it less so where, as in this country, industrial and social conditions, while not at the moment alarming, still leave much to be desired?

However, the adoption, on a national scale, of the theories advanced here is not urged from a feeling of apprehension or fear, but as being desirable from the standpoint of better economics and as a stepping stone toward the recognition of the value of well developed life in our country—the most important and most priceless of all our national possessions.

To repeat a widely reported statement of one of our great corporation executives, known for enormous expenditure on the human side of his organization, "In addition to all else, it pays in dollars and cents".

FARM OWNERSHIP AND TENANCY

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THE ownership of farm property has at times been the bulwark for an aristocratic social order, at other times the foundation of democracy. Since the close of the World War tremendous changes in the status of landed property have been taking place in the eastern half of Europe, especially in the various states carved out of the former Austrian and Russian empires, and in the Balkans. In the western half of Europe where democratic régimes of landed property have already been approximated as a result of the various revolutions of the nineteenth century and successive steps in land reform, post-war legislation has tended to strengthen and extend the elements of democracy already developed. Even in the United Kingdom the war and subsequent conditions have hastened the tendency toward the disintegration of the aristocratic system of land ownership.

In spite of various attempts during the colonial period to transplant into the New World the manorial system, American democracy has been constructed on the basis of a wide diffusion of farm ownership. The legislation of the Revolutionary period swept away the last legal props of an aristocratic régime. Our subsequent land policy has contained no elements designed to promote the development of an undemocratic agrarian system. On the other hand, it has not involved and does not yet involve adequate safeguards to prevent such a development, unless our inheritance laws may be regarded as an exception. The same land policy under which democracy of farm land ownership was achieved in the greater part of the nation made possible the development of the aristocratic plantation régime and the concentration in ownership of timber and mineral resources.

In short, if we have a democratic system of farm ownership in the greater part of the country such a system can not be too confidently attributed to our land policy. At most our

land policy *permitted* a democratic development, but if economic and social forces had placed a premium on an undemocratic tendency our land policy involved and now involves no effective safeguards against such a tendency. It is true, our laws of inheritance and homestead rights in the various states may be considered as an important influence in favor of a democratic system of land ownership. However, with the exception of the laws defining the rights of a surviving spouse, there are but few states where the statutes restrict seriously the right of bequest. It must be admitted that the laws of inheritance have had a powerful influence upon the custom of bequest in the various parts of our land. However, custom would not be a sufficient barrier if strong forces of concentration should make their appearance.

What, then, are the forces that have made farm land ownership democratic throughout the greater part of the United States?

First, we may note the absence of an aristocratic tradition in connection with the ownership of farm land.

Second, the tremendously rapid industrial development of the nation has absorbed the energies and capital of the urban capitalist classes.

Third, in a large part of our country agriculture has been either self-sufficing or partially commercial and capitalistic, especially in the earlier stages of development. Therefore it has not afforded a desirable investment opportunity for urban capital.

Fourth, pioneer conditions are not favorable to tenancy, and therefore the principal source of gain from large land holdings is increase in value, whereas the pioneer farmer may gain both the increment and a livelihood from ownership and occupancy of his holding. Consequently in our newly developing sections even large speculative holdings have tended to be broken up and distributed among land-owning farmers.

Fifth, until the past few years a large proportion of our population has been actuated by a passionate land hunger which led irresistibly to the acquisition of small farms.

Such are the forces which have produced our present agrarian system. Let us pause and take stock of that system as it now stands, before undertaking to consider whether the same forces should be counted on to preserve a democratic régime.

The status and trend of farm tenure in the United States, as revealed by statistical analysis, may be the ground for an extremely pessimistic or for an unduly optimistic interpretation, according to one's point of view. The great majority of our people have viewed the system from the point of view of what I may call the pioneer complex, since every mental attitude must now be called a complex. This point of view is colored by the fact that in the original pioneer development of any region each farm operator is or may easily become, the owner of the farm he operates. Since we have so recently emerged from a pioneer stage, it is very natural that one may become greatly alarmed by the rapid appearance of a large percentage of tenants. Take, for instance, the experience of the State of Oklahoma. Within about three decades after settlement more than one half the farms in this state were operated by tenants. This point of view is also fortified by looking across the ocean to countries like Denmark or Germany where a régime of peasant proprietorship largely prevails, without making due allowance for the vast differences in the economic and social status of European peasant proprietors and American landowning farmers.

On the other hand, we have had a school of optimists dominated by what we may call the English tenure complex. They have recognized that with nearly nine-tenths of the farms operated by tenants, English agriculture has been characterized by a high level of agricultural technique, the maintenance of soil fertility, improvement of the farms, and stability of tenure and occupancy. Such optimists have pointed to the economy in the farmers' operating capital made possible by renting the real estate from others, and have laid much stress on the function of tenancy as a convenient stage of progress.

Such a point of view, however, may not make due allowance for the paternalistic attitude of landlords in England, for the tremendous influence of custom in promoting stability of tenure and occupancy, and for the potent influence of relative scarcity of land in increasing the tenant's stability and amenability to control. Furthermore, before one becomes too much obsessed with the excellence of the English agrarian system, it is well to note the profound changes that have been taking place in recent years in the direction of a larger proportion of landowning farmers and to recognize also the large number of

landless hired laborers who have constituted a special object of deep concern to many English students of economic and social conditions in that country.

Our tenure problems should not be viewed in the light of a perspective derived from a pioneer economy, nor should European analogies be too rigidly applied. It is also important to avoid the tendency to stop with broad generalizations for the nation as a whole. This is a large country, and tenure conditions vary enormously in character and significance. It it not too much to say that farm tenure is largely a local problem, without meaning to imply that it is not of national concern or that it must be dealt with solely by state legislation.

In taking stock of our present system it is possible in so brief a paper to deal with the subject only in very broad terms.

In 1920 farms operated by owners were 52.2 per cent, those operated by so-called part owners 8.7 per cent, and those operated by managers were 1 per cent of the total. In 1880 these three classes were included in a single group. They represented approximately 62 per cent of the total number of farms in 1920 as compared with a little less than 75 per cent in 1880, while farms operated entirely by tenants had increased from 25.6 per cent to 38.1 per cent.

These increases however must be considered with special allowance for Southern conditions. The practice of the Bureau of the Census in counting as a separate farm each cropper or tenant farm on a plantation, however closely supervised by the plantation management, is likely to give a very false statistical conception. A plantation closely supervised by the plantation owner is essentially operated as one farm, and from the standpoint of the policies followed, is one farm. The enormous increase in the number of so-called tenant farms in plantation regions signifies not an increase at the expense of landowning farmers but in large part the transformation of a class who were formerly laborers, either as slaves or for hire, into a class who enjoy the more satisfactory stations of tenants or quasi-tenants.

However, omitting the South, the extent and progress of tenure for the remainder of the United States is less alarming. From 1880 to 1920 the percentage of full tenants increased from 19 to 26.6, but for the twenty years from 1900 to 1920 the increase was only from 25.5 per cent to 26.6 per cent, or one percentage point.

Such a slight change in two decades and a percentage of little over one-fourth would not be grounds for deep concern, but again it is well to break up the problem into smaller geographic units. Time permits me to use only a few bold brush strokes in bringing out these lights and shadows. In the group of states east of the Mississippi Valley and north of the Carolinas and Tennessee, land tenure has been approximately static for some time. The percentage of tenancy in all but one of these states is well below the national average, and in many of them it is unusually low. With the exception of a few localities there is no ground for profound concern as to the extent or trend of tenancy. Similar observations probably apply to Wisconsin, Michigan, West Virginia and parts of Ohio. On the other side of the continent, in the Mountain and Pacific States the percentage of tenancy is far below the national average. In these states, however, there has been a rapid increase from the comparatively recent stage of pioneer economy, an increase that was to be expected and that does not give grounds for concern provided it does not go too far. In the Great Plains tier of states from North Dakota to Oklahoma, a similar rapid development of tenancy out of an original pioneer condition of almost universal ownership by farmers has occurred, but the tendency has gone so far as to give reason for deep concern. The same may be said of the group of other states which fall mainly in the Corn Belt, in some parts of which more than two-thirds of the farmers are tenants. The predominance of tenant farming in the staple producing regions of the South has already been referred to, but some allowance must be made for the unity of policy afforded by plantation organization.

Even a geographic statement of the problem by states leaves much to be desired. The fact is that in our country tenant farming tends to develop in areas where certain special conditions occur. High land values due to the prevalence of a large proportion of fertile crop land are favorable, but only where the system of farming is conducive to the renting of farm land. For the most part, this is not the case for fruit farms and dairy farms. Moreover, in the case of truck farms, the small area required and the lack of standardization in methods of operation tend to favor owner farming rather than tenant farming. High land values have been particularly

potent in promoting tenancy where a rapid increase of values gave rise to a large speculative element in land values. On the other hand, in our broken and hilly regions, on low-grade soils, and the regions where the system of farming is unfavorable to renting of land, owner operation predominates.

Broadly speaking, the fact that nearly seventy-three per cent of our farms outside of the South are operated by owners, indicates a democratic system of property. In the West, where twenty to fifty acres of grazing land may be needed to maintain a cow, there are large ranches measured in terms of area. There are also some large plantations in the South operated by hired laborers rather than by tenants. Unfortunately, we have no statistics of size of farms by tenure. However, in the country as a whole only three per cent of our farms in 1920 were as large as 500 acres, and the average size was only 148 acres.

Complete information on the subject of the ownership of rented farms is available only for 1900. For 1920 the Bureau of Agricultural Economics made a study for 275,000 rented farms in selected areas. In the North there was no marked increase in the concentration of farm ownership between 1900 and 1920 in the regions studied. The lack of concentration of ownership, as, for instance, in 85 selected counties of eight North Central states, is shown by the fact that less than four per cent of the tenant farms were owned by landlords owning as many as five rented farms. In the South as a whole there has been a steady tendency away from centralized ownership since the Civil War, but there is still a great deal of concentration of ownership in some of the more typical plantation areas. For instance, in the Yazoo Delta 82 per cent of the rented farms were owned by landlords with five or more rented farms. Outside of these special plantation districts a much more democratic régime of farm ownership prevails.

In general, landlordism in the Northern states bears little resemblance to the traditional landlordism of European countries. About nine-tenths of our landlords reside in the same county in which their farms are located or in an adjoining county. More than a fourth of the tenants are related to the landlords by blood or marriage, and in some of the states as high as forty per cent are thus related. The great majority of our landlords, both in Northern and in Southern states have

grown up from the soil and have achieved farm ownership by hard work and thrift. More than nine-tenths of male landlords have been at some time engaged in farming. In the North thirty-seven per cent reside on farms and two-thirds live in rural localities. In the South over two-thirds of the landlords live on farms and more than four-fifths in rural territory.

To a large extent in the North tenancy is fulfilling an important economic function by economizing the capital required by young men in establishing themselves on the agricultural ladder, providing a means for the gradual retirement of old farmers on a moderate competence, though retaining in the large majority of cases an advisory or supervisory relationship, a relationship facilitated by the fact that three-fourths of our tenant farms are rented on a share basis. To a large extent tenancy has functioned as a stage in the transfer of the ownership of farm property from one generation to the next.

In the South tenancy has represented a necessary transition stage from the ante-bellum plantation régime, based on slavery, destroyed too suddenly by the Civil War. It has probably been a more satisfactory economic arrangement both from the standpoint of negro workers and from the standpoint of the landlords than a system of wage labor. The inexperience and general thriftlessness of a large body of these workers has prevented them from achieving landownership, and unfortunately the system has not been favorable to the elimination of these characteristics by education. The system has been characterized by a considerable amount of paternalism and also by a considerable degree of exploitation. Somewhat similar conditions have prevailed probably among the majority of the large number of white tenants to be found in the South.

Outside of the South, then, we may conclude that the ownership of farm property is still reasonably democratic and has not become much less so in recent years. In the South, it is still quite undemocratic, especially in the old plantation regions, but apparently is gradually assuming a more democratic complexion. It is a most encouraging sign that since the Civil War twenty-five per cent of the negro farm operators have come to be owners of their farms.

However, such simple formulas as it is necessary to employ

in a brief paper are not very satisfactory for the interpretation of our complex and varied system of landed property. At most, such formulas merely reflect the high lights. They should not create in us an undue satisfaction with the present or a false confidence in the future.

The nation is almost entirely lacking in a tenure policy deliberately designed to insure the maintenance of a democratic system of tenure. Some of the forces, outlined above, that have thus far developed and maintained such a predominantly democratic system, are passing. Let me suggest briefly some of the profound changes that are taking place.

1. The expansion of industry which formerly absorbed practically all of our urban capital can now be financed from our abundant capital and still leave much to spare. However, the restoration of European economic conditions is likely in a few years to compel us to meet again the sharp competition for foreign investment of the overflow capital of Great Britain, France, Germany and other states. It seems more than probable that some of our rapidly increasing *gross-Kapital* will be forced to seek investment in farm real estate, and its economical investment may necessitate large-scale holdings to diffuse the burden of overhead expense.

2. The conditions which have made farm real estate an unattractive field for the investment of urban capital are being eliminated by the rapid commercialization of agriculture. Within a generation a large proportion of our farmers have passed out of a self-sufficing stage into a régime of buying and selling. Labor, including that of the farmer's family, must be obtained or retained in direct competition with the demands of urban industry. Even the farmer himself is beginning to consider carefully what is left to pay for his own labor as compared with what he could obtain for it in other occupations. The farmer is being forced to make similar comparisons in investing his capital, especially since much of it is borrowed.

3. The marked tendency for the more successful farmers to spend their declining years in cities has greatly increased the problem of financing the transfer of farm ownership from one generation to the next. Inheritance plays a much smaller part than it did a century ago or than it would under the more static conditions of a European peasant community where son

succeeds father in unbroken line under the special arrangements for inheritance or settlement which have been developed in the various countries to prevent morcellation. Our studies show that in various states the ownership of from two-thirds to four-fifths of the farms was acquired by purchase.

4. The problem of farm tenure is greatly complicated by the peculiar characteristics of agricultural competition, which may be summarized as follows:

(a) The absence of monopolistic privileges protecting from the full influence of competition, unless exception be made of some tariff protection.

(b) The exceedingly irregular and largely unpredictable fluctuation of the yields and prices of farm products.

(c) The large proportion of the investment in fixed capital.

(d) The fact that the farmer's place of business is also his home, hence the difficulty of change to other industries or localities.

(e) The fact that so large a proportion of the farmers produce below the normal competitive level as shown by agricultural surveys and cost accounts. The conditions of competition are largely similar to those of the retail grocery trade —that is, much of the service is rendered by those who either will ultimately fail or else will vegetate on a subnormal return.

(f) The continued expansion of our agricultural industry in the past has placed a special premium on the tendency to combine both the expected increment in value of real estate and current income in the farmer's calculations, and the process of unduly rapid expansion has been promoted not only by our policy in disposing of public lands but also by the interest-free money poured into the Reclamation Service, and by the activities of private real-estate interests in pushing land into cultivation.

This analysis of the economic peculiarities of farming enables one to formulate some considerations that will be involved in the gradual development of a constructive land policy. (1) It helps to explain why so great a proportion of the systems of land settlement based on a large margin of credit, even some of our interest-free federal reclamation projects, have failed, and it suggests that we should proceed with care in adopting some of the proposals for developing an ela-

borate system of land settlement based on a large margin of credit to the farmer. We should discontinue the attempts to force artificially an expansion of agriculture until economic conditions shall again create real and substantial demand for farm land, and we should discourage through land classification unwise and unnecessary expansion of the land area with its consequent heavy losses to new and established farming.

(2) The conditions that have been mentioned make it certain that we shall continue to have a large percentage of tenancy in our better agricultural regions, nor can such a condition be avoided merely by some easy-going credit system or any other legislative device that I know of. Consequently we should bend our efforts toward promoting a sound relationship between landlord and tenant, including stability of tenure and compensation for improvements.

(3) As competitive conditions in agriculture become more nearly normal, facilities for purchasing farms on a large margin of credit and liberal terms may well be established, but such provisions necessarily imply a large amount of paternalism, such as careful selection of land, equipment and men, and an advisory or supervisory relationship on the part of the lending agency, and they probably should involve some restrictions as to subsequent alienation.

(4) Indeed, the difficulty of promoting the easy purchase of farm real estate under the severe conditions of competition prevailing in agriculture may justify our serious consideration of a system of restricted inheritable leaseholds comparable in economic character to the system provided for cottars in Denmark, in 1919, or resembling in some regards the German *Rentengüter,* but such a system would likely be only supplementary to the predominant system of private landownership.

Unquestionably the maintenance of a democratic system of farm property constitutes a great problem which we have as yet hardly touched, involving no doubt many years of costly experimentation, but it is none the less vital to the continued soundness of our national life.

THE DIFFUSION OF STOCK OWNERSHIP OF THE NEW YORK CENTRAL LINES

ALBERT H. HARRIS
Chairman of the Finance Committee and Vice-President of the New York Central Lines

HEAVY surtaxes have taken such a bite out of the incomes derived by rich men from dividends and interest, that their appetite for further investment in stocks and bonds the income from which is subject to federal taxes, has somewhat lost its edge. It has become necessary to widen the field and to seek for additional money from men of more moderate means.

The gas and electric companies throughout the country, and particularly the telephone companies, have been pioneers in this matter, and they have done a great deal in the way of selling their stock and securities, not only to employees but to customers, so that the ownership of their securities is very widely diffused.

The railroads, too, have found it necessary to widen the market for their securities. Although the sale of additional stock in recent years has been a very rare happening on the part of the steam railroads, their bonds and their car trusts and other securities, which they have issued in order to obtain new money, have gone largely to the small investor, whereas in former years they were taken in great amounts by rich men, by banks, by insurance companies and by those who were easily accessible to the railroad company or to its fiscal agents.

The result of this diffusion of securities has been greatly to increase the number of stockholders and correspondingly to decrease the average holding by the individual investor.

In 1910 there were about three hundred thousand stockholders of American steam railroads. In 1923, there were over eight hundred thousand. Much has been done already in the scattering of securities and in the development of this movement. It has gone far and it promises to go farther and to have most beneficial results. To the satisfied investor who has

confidence in his company and in its management, companies can have recourse for part, at least, of the new money which is required in order to provide the facilities which the growth of their business constantly demands. Not only does this diffusion of securities open up a new field of investment, but it creates a friendly feeling on the part of all of those who are investors in the company and who are satisfied with their investments. Those who are influenced by them are in turn likely to follow their example and to become investors themselves, and so the circle widens and we have a continually increasing constituency in this new field. Further than that, we have the influence of investors in matters which relate to the welfare and the interests of the companies whose securities they own. A man who has invested his money is apt to be better informed as to the needs of his company and in regard to the different corporate problems which it must face. His influence will be used to see to it that in all such matters his company receives proper consideration from the public.

There is a great deal of wealth in the United States and it is constantly increasing. In 1900, 10 per cent of it was invested in steam railroads; in 1912, 8.6 per cent; in 1922, 6 per cent. This means that the wealth of the country is increasing at a larger ratio than is the investment in railroads. It means further that, if the railroad companies are in a position to offer securities which are attractive to investors, there will be no want of supply of the money that is constantly needed for the furnishing of additional facilities.

When a large proportion of the people of the country have become the holders of securities in railroads and in public utilities, we shall have the best possible form of public control and public ownership. It will be direct and voluntary. It will be far better than an indirect and involuntary public ownership and control such as the advocates of government ownership urge upon us.

In this connection, the emergence of the employee as a stockholder and investor is a matter of special significance. A man who has saved his money and invested it in securities is apt to be more thoughtful and steadier than one who has saved nothing and has no property interests of his own to consider. It is especially desirable and important that employees should become stockholders and holders of the securities of the com-

panies for which they work. It gives them a greater interest. It gives them the satisfaction of participation in ownership and it leads them to realize that the reward for faithful and diligent service is not to be found only in their pay envelope.

The New York Central Lines have had these things in mind for some time, and this winter we undertook to sell to the employees stock of the New York Central Railroad Company. The New York Central owns the main line from New York to Chicago. It owns a majority of the stock of the Pittsburgh & Lake Erie; it is the owner of ninety per cent of the stock of the Big Four and of ninety-five per cent of the stock of the Michigan Central, etc. So that the offer of the New York Central stock was made to the employees of the New York Central and of its subsidiaries, including employees of these companies I have mentioned.

The offer was of thirty-five thousand shares at one hundred and ten. The stock at that time was selling in the market at one hundred and twenty, or a little over. The employee could not come to the office and put down his hundred and ten dollars and go away with a share of stock. He could subscribe for one share for every two hundred dollars of his annual pay, but the aggregate of his subscription was limited to twenty shares. Payment for the stock is to be by deductions from the monthly payroll, ranging from five dollars a share as a minimum to fifteen dollars as a maximum, at the election of the subscriber. He could determine within those limits how much he would pay. That offer was made on the seventh of January and closed on the first of February. Subscriptions were received from forty-one thousand five hundred employees for about ninety-seven thousand shares of stock, equivalent at par to nine million seven hundred thousand dollars. That was much beyond the amount of stock available and much beyond the thirty-five thousand shares that were offered, but it was found possible to allot upon those subscriptions about sixty-eight thousand shares. The company filled subscriptions for one share and for two shares and gave those who subscribed for larger amounts about one-half of what they had subscribed for. A man who subscribed for twenty shares, however, received only six shares.

These subscriptions came from all classes of employees, from the men in executive offices down to the laborers on the track.

The engineers and the firemen, the waiters on the dining-cars, all departments were represented.

One result of this has been to increase the number of stockholders of the New York Central from thirty-six thousand five hundred, which it had on the first of January, to seventy-eight thousand. There are about one hundred and sixty thousand employees on the system, including the shifting labor that comes and goes, the labor on the track, and what not, which is only more or less constant. Out of that one hundred and sixty thousand, one-quarter became subscribers to the stock in less than a month's time.

We are very much pleased, naturally, with this result. We think it has shown that our employees as a whole are thrifty and saving and know a good thing when they see it, and it shows also that they have confidence in their property, its management and the future. We expect to do what we can to encourage the distribution not only of our securities but of our stock among small holders, to increase the constituency to which we can resort and to interest directly as part proprietors in the New York Central Lines as many people in this country as possible. In doing this, we think we not only serve our own interests but do something to the benefit of the situation as a whole.

THE EMPLOYEE INVESTOR

HENRY S. DENNISON
President, Dennison Mfg. Co., Framingham, Mass.

OUT of a deep and seasoned friendship to employee stock ownership, I urge that we be unsparing in the demands we make upon ourselves for thoroughness, clarity and far-sightedness in our thinking on this subject. I believe in the use of a special employees' stock as a substitute for annual or even quarterly cash bonuses in schemes of profit sharing. I believe that, for the limited group of employees who have a definite share in management, this stock should be a voting stock and not salable; for other classes of employees, such special stock is best non-salable and non-voting.

When it comes to selling stock to employees to be paid for out of savings from wages or salaries, serious questions arise. If it is non-voting stock, the question is one of wage-earner's investment and of the development of some sort of proprietary or heart interest in the concern. Considered purely as an investment question, a financial adviser would hesitate to recommend that a principal part of one's savings be subject to the same risks as one's principal source of income. So unless the employee has considerable convertible savings independent of the company, the risk of having too many eggs in one basket without a real opportunity to watch that basket, must be given its full weight. One of the occasions for the need of ready money by the employees in our company would be part-time work and lay-offs occasioned by business reverses which might make our stock worth little. At the same time the company would be deeply hurt by the resentment which its employees would feel the more keenly because the company had urged them into their unhappy positions.

Concerning heart interest in the company, we must make our minds clear that if this is to be of value to industry it must be an affirmative interest, not simply one more fear of loss added to the worker's already somewhat insecure world. Such an added fear, sometimes mistakenly called wholesome,

is capable, temporarily, of making the job of management easier. In the long run it will neither select nor develop the type of employees who can make the job of management most profitable.

If the proposition is to sell the employees a voting stock, a whole set of fresh considerations appear. In the early stages of the project, employees' stock being in an entirely insignificant minority, it is easy to overlook some of these considerations, but most unwise to do so. If it is thought unlikely or undesirable that employees' stock should get beyond the stage of an insignificant minority, it is wiser by far to provide, by special stock or other means, that it shall be non-voting. Nothing in human history has shown itself much more violent than a minority after it has become conscious for a sufficient length of time of its powerlessness.

A group of employees is not like a scattered group of investors; it is living together, and it has a deep, common bond of concern beyond its stock ownership. The methods used with a scattered investment interest will not long be appropriate with employee stockholders. If, for example, an approved group of employees who had for many years invested their savings in the company should get the notion, rightly or wrongly, that their double financial dependence on the concern was being used to exploit them in the interests of another group of people, the results would not be even that degree of interest and care for the company's welfare which a sensible selfishness might dictate. With such a notion in their heads, they would be likely to indulge in impulsive reaction with little regard for good sense or their own best interests.

After all, the voting rights of a stockholder are not particularly appropriate to the wage-earner's needs or interests. He is deeply concerned with many points in the operating management of the factory or store, and knows, from one point of view, at any rate, a good bit about it. He is not much concerned with the members of a board of directors representing the investing interests in the concern, and he has seldom the least bit of information concerning them. So he has in the concern an acute interest compared to which his slender powers as minority voter must sooner or later appear a mockery. This must even be true in many cases where the right is given him to put a representative on the board of dir-

ectors. It is operation and details of operation which vitally affect his life and he comes into contact with such details much more efficiently through representatives on a works council with only advisory powers than he does through a minority member of a board of directors which has a general oversight of the policies of the concern. Through the works council he can have taken into account an instructed and audible voice concerning that part of the company's affairs which are of hourly concern to him, even if it is not the voice of authority.

The Philadelphia Rapid Transit has organized the voice of its employee stockholders from the very beginning, by having the vote exercised by an employees' association. Here, therefore, is an experiment to be watched narrowly by those interested in conferring upon wage-earners the common stock rights and obligations originally appropriate to active proprietorship. The P. R. T. recognizes that voting rights infer obligations, obligations not merely to vote or to vote tamely, but the vote intelligently, and therefore imply opportunities to understand thoroughly the major problems of the company.

The rights inherent in common stock originally corresponded to the real opportunities to exercise those rights. The developing of large companies—the scattering of investment—has made such opportunities rare or artificial.

There are some analogies to be drawn between employee stock ownership and customer stock ownership. With the latter, the risks are probably not so severe; but with either, if there is the least grain of a purpose to exploit, if it is to act as a dope to public opinion so that even proper public control will not be undertaken, if it is to act as an anti-union project or in the hope of holding down wages, or of dulling a proper unrest, then ultimately such a project must fail. For employee stock ownership, like welfare work or employee representation, is capable of evil because it is capable of good. In its general provisions it must be made fit for either; its details of structure and its applications, upon which will ultimately depend whether it shall work for evil or for good, will be determined by its true purpose.

THE INCREASE IN POPULAR OWNERSHIP SINCE THE WORLD WAR

ROBERT S. BINKERD
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SOON after the Committee on Program and Arrangements had selected the subject for this meeting, it developed that although it was a matter of common knowledge that a considerable increase had taken place in the number of stockholders in the principal American industries, there was little comprehensive information as of the end of 1924 or early 1925 and not a great deal of dependable data as to the period of time over which this diffusion of stock ownership had become most pronounced. It seemed desirable that the pertinent facts should be ascertained as of the present time, to serve as a basis for a discussion as to the newer forms and the social consequences of what has been taking place.

Accordingly, in compliance with the request of the Chairman of the Program Committee, I undertook to secure—so far as possible from the corporations themselves—information as to the increase in the number of their stockholders from January 1, 1918, to January 1, 1925, and in a few cases up to March 1, 1925.

January 1, 1918, was chosen as a starting point because it antedated the Third and Fourth Liberty Loan campaigns, and also because it antedated the full reflection of the many economic and social impulses growing out of the war.

Within the short period of time available for this survey, it was not possible for me to extend my inquiry as broadly as I would have been glad to do, with respect to iron and steel, oil, and other industrial concerns. My report in that respect probably reflects typical conditions, but is not nearly complete and inclusive.

I was obliged to confine myself primarily and largely to data as to participation in ownership through stock holdings. There was no way open to me, in the time available, of mak-

ing a satisfactory supplementary survey as to the extent of popular ownership through the holding of bonds and lien securities of these same corporations and properties. Figures which reflect only the extent of the holdings of *shares of stock* obviously fall short of telling a complete story or making a complete picture as to the extent of popular participation in ownership.

In making this survey and in preparing this report, I have sought only to find out and state the facts, and have not undertaken to analyze them or comment upon their significance. That task devolves upon the various speakers in this national conference. The Academy of Political Science seeks a representative discussion upon the basis of facts accurately ascertained and brought down to date. My compilation relates to facts, not views.

I

Below are the stockholders actually shown by the following industries:

Industries	1918	1925
Railroads	647,689	966,170
Express and Pullman	12,956	23,779
Total railroad and allied services	660,645	989,949
Street railways	275,000	550,000
Gas, electric light and power companies	1,250,000	2,611,279
Telephone and telegraph	107,033	371,604
Packers	65,000	100,000
Ten oil companies	23,502	161,179
Five iron and steel companies	130,923	223,149
Ten high-grade miscellaneous manufacturing and distributive companies	25,002	44,339
Total	2,537,105	5,051,499

In the seven years from 1918 to 1925, therefore, stockholders in the above enterprises increased 2,514,394. In other words, they practically doubled.

II

This increase was gained from the following sources:

Increase in Stockholders—1925 over 1918

Industries	From Employees	From Customers	From General Public
Railroads	70,262	45,003	203,216
Express and Pullman	......	2,996	7,827
Total railroad and allied services	70,262	47,999	211,043
Street railways	15,000	......	260,000
Gas, electric light and power companies	75,000	815,955	470,324
Telephone and telegraph	62,649	......	201,922
Packers	7,000	......	28,000
Ten oil companies	21,153	800	115,724
Five iron and steel companies	87,696	......	4,530
Ten high-grade miscellaneous manufacturing and distributive companies	......	......	19,337
Total	338,760	864,754	1,310,880

III

Twenty-six Class I railroads, representing about 60 per cent of the main-line mileage of the country, had 454,304 stockholders on January 1, 1918, and 699,552 stockholders on January 1, 1925. It is these twenty-six companies which show an increase of 70,262 in the number of employee stockholders and 45,003 in the number of customer stockholders. The actual number of employee and customer stockholders is greater than the figures stated. These figures also do not include the sale of bonds to either employees or customers, although the New York, New Haven & Hartford Railroad Company has just recently had an interesting success in floating a $23,000,000 bond issue among its customers.

The number of stockholders in street railways in this country has doubled since 1918. Only a small part of this increase has come from employees or customers. There are a number of electric light and power companies which also operate electric railways and have customer stockholders; but as those customer stockholders were obtained through the light and power depart-

ment they have been excluded in the picture of the street railway situation.

The number of stockholders in gas and electric light and power companies has slightly more than doubled since 1918. Here is to be found the great increase in the customer stockholders—815,955 since January 1, 1918. In view of the fact that many electric light and power companies also operate gas plants, it was deemed inadvisable to attempt a separation between the gas companies and the electric light and power companies.

The telephone and telegraph services show more than a threefold increase in stockholders. A substantial part of this increase comes from the employees of the telephone industry and the balance from the general public; although no doubt the great majority of these investors are also telephone users and might in a sense be described as customer shareholders.

The packing industry shows an increase of approximately 35,000 shareholders. Seven thousand of this increase comes from the employees of the industry, making the total employee interest today not less than 20,000 shareholders.

Ten oil companies, representing more than ten per cent of the production of the oil industry, show an increase in stockholders from 23,502 to 161,179, or nearly seven times. The bulk of this increase comes from the general investing public. These companies include one from the Standard Oil group and a number of independent companies operating in different parts of the country. The bulk of the employee shareholders are to be found in the company from the Standard Oil group.

Five steel companies, representing about 70 per cent of the production of the steel industry, show an increase from 130,923 stockholders to 223,149. These companies show the largest participation by employees as shareholders, the figure standing at 87,696.

To get some picture of our general manufacturing and distributive industries, I went to a high-grade industrial banking house which does the financing for ten well established, diversified manufacturing and distributive companies. These companies include boots and shoes, clothing, typewriters, automobiles, mail-order houses and department stores. They show an increase from 25,002 stockholders in 1918 to 44,339 at the beginning of 1925. Some small part of this increase came

from employees and customers but it was not possible in the time at our disposal to ascertain what proportion.

The employee interest in all industries is understated. The bulk of the stock sold to employees is bought on the installment plan and the employee does not legally enter the list of stockholders until the period of installment payments is completed. This period generally ranges anywhere from twenty-one months to five years.

IV

Paralleling the increase in the popular participation in our public services and industries, there has gone on an enormous increase in the joint activities of our farmers as business men. It is impossible to compare this growth over the identical years covered by the above study, as the figures for 1918 are very unsatisfactory. Mr. L. S. Tenny, Assistant Chief of the Bureau of Economics of the U. S. Department of Agriculture, makes the following estimate of the number of farmers financially interested in cooperative buying or selling organizations:

Products	1916	1925
Cotton	18,000	320,000
Dairy products	140,000	360,000
Fruits and vegetables	110,000	210,000
Grain	167,000	500,000
Live stock	13,000	300,000
Tobacco	18,000	290,000
Nuts	.....	23,000
Poultry and poultry products	......	45,000
Wool	......	45,000
Farmers' stores and miscellaneous cooperative enterprises	184,000	397,000
Total	650,000	2,490,000

While membership in a farmers' cooperative organization is not necessarily analogous to being a stockholder in a corporate enterprise, practically all of these ventures require each member to contribute something toward the needed capital; and it is interesting to note that in one of the older organizations about 69,000 farmers were handling their products through this cooperative and 52,000 farmers were contributing its working capital.

V

A further portion of this picture must be found in the growth in the number of savings accounts and the aggregate of their deposits over the same period. On January 1, 1918, there were 10,631,586 savings account depositors. Their deposits aggregated $11,115,790,000. At the opening of business on January 2, 1925 depositors numbered 38,867,994 and their deposits aggregated $20,873,552,000. In other words, in the seven years under consideration savings account depositors increased 28,236,408 and the aggregate of their deposits increased $9,757,762,000.

VI

From the above data it would appear:

1. That the great increase in popular investments in corporate and other undertakings has taken place since January 1, 1918.

2. That by the most conservative estimate our railroads, public utilities and corporate enterprises since 1918 have added at least 3,500,000 stockholders; of which probably 500,000 are employees, 1,000,000 are customers and 2,000,000 are investors drawn from the general public.

3. That in addition to the increase in stockholders, on the most conservative basis bondholders have increased by at least 2,500,000. In some industries like the telephone, the street railway and other public utilities, the increase in bondholders is almost parallel to the increase in stockholders.

4. That since 1918 at least 1,800,000 farmers have become financially interested in cooperative buying or selling.

5. That since 1918 over 28,000,000 new savings accounts have been opened and the aggregate amount of savings deposits has nearly doubled.

VII

It is not my function to discuss the significance of these facts. Their mere statement constitutes a challenge to all of us, for they show that we are fast creating an economic society in which every responsible adult is tending to become directly —or at one remove, through the savings bank or insurance company—interested in corporate conduct and corporate

profits. Whether we be corporation managers, investors, workers or consumers, we are facing an ever-increasing need for developing a sense of economic good citizenship if this highly diffused and interdependent structure is to rest upon firm and stable foundations.

In securing the facts set forth in this report, I approached directly the presidents of some ninety-seven important corporations. In no case was the request for information refused. In only one case was it impossible to supply most of the requested information. I cite this as interesting evidence of the frankness with which big business is conducted in this country today.

I also desire to record the helpfulness of the following national organizations: The American Gas Association, The National Electric Light Association, The American Electric Railway Association, The American Petroleum Institute, The Institute of American Meat-Packers, The Iron and Steel Institute, The National Industrial Conference Board, The National Retail Dry Goods Association, The National Manufacturers Association, and the officials of the U. S. Department of Agriculture, the New York State Bureau of Markets, and the Dairymen's League.

THE DIFFUSION OF OWNERSHIP OF INDUSTRIES IN THE UNITED STATES

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ONE of the most significant economic movements of the present day is the rapid diffusion of ownership. In the past there has been considerable concentration of ownership. There is always a greater inequality of ownership than of incomes because many people of ample incomes own no property. There has generally been greater inequality of incomes than of consumption because most of the contributions to philanthropic causes and most of the investments in future business development have come from people with relatively large incomes. This has subtracted from their consumption, so that there has resulted a much greater approach to equality of consumption than to equality of income. This is being partially corrected at present by the fact that people with small incomes are beginning to invest more heavily than they have in any previous period of our history. New supplies of capital are furnished in increasing quantities from people with small incomes. The expansion of industry, therefore, does not depend so closely as it once did upon savings and investments by people with large incomes.

The savings made from small incomes are evidenced by at least four forms of accumulation. First, the increase in savings deposits of all kinds; second, the growth of industrial insurance; third, the rapid increase, especially among employees and customers, in the number of investors in the shares of corporations; fourth, the growth of labor banks. The figures showing the rate of accumulation in these four forms are increasing so rapidly as to be out of date before they can be verified and published.

This diffusion of ownership is taking place without any radical change in our institutions or in the laws affecting property. Ownership in industrial corporations is being acquired by the well recognized method of purchase. Ownership of corporations is being diffused by precisely the same method as that by which ownership of automobiles and radio sets has already become widely diffused.

This diffusion does not require any radical change in the forms of business organization. The joint stock form of ownership furnishes as good an opportunity for popular ownership as has ever been invented, even on paper. The joint stock corporation always was, in theory, a democratic institution. For several reasons it failed, in the past, to be democratic in practice. It is now actually becoming, in practice as well as in theory, a democratic institution.

There have been four reasons which, in the past, prevented the joint stock corporation from becoming a thoroughly democratic institution. These reasons have prevented the masses from availing themselves of the opportunity for this form of popular ownership. First, the low wages caused by the free immigration of cheap labor have prevented the masses of wage workers from getting enough money to invest. To be sure, all this time, vast sums of money were lost in strikes. The laborers, even with their low wages, managed to afford this. If the money lost by strikes had been invested in the shares of corporations, the laboring classes would, by this time, have owned a controlling interest in many of our industries. However, there is no doubt that any accumulation of capital for any purpose—either destructive or productive—involved great sacrifice on the part of the masses of laborers in the days of cheap labor and low wages. Second, the enormous waste of money on drink has dissipated such savings as large numbers of laboring men might otherwise have made from their low wages. Third, fraudulent promotions of corporations that could not possibly succeed have resulted in great loss to large numbers of inexperienced investors. The money thus lost was not only dissipated, but it tended to discourage further saving and investment by the losers and others who took warning from their examples. Fourth, laboring people and others have been misled by demagogic leaders as to the true nature of capital and investments. Capital to many of them was anathema: They were told that it was wholly predatory, and in some cases laboring men were warned not to become capitalists because to do so would be to join a predatory class.

The restriction of immigration has helped to remove the first hindrance, though even with restricted immigration we should not be able to pay high wages, were it not for the fact that we have succeeded in massing a large quantity of high

intelligence on business problems. We have succeeded in doing this because business has always been respectable in this country. In a country with aristocratic traditions, where business is more or less despised, it seldom happens that the smartest men seek business careers. Unless a fair proportion of the most intellectual men of the country seek business careers, business does not expand. If business does not expand, there will not be a strong demand for labor, and if business is not highly productive, high wages cannot possibly be paid. In this country, because of our democratic traditions and the feeling that business is just as respectable as anything else, we have succeeded in massing a large proportion of our most intellectual men on business problems. This fact, more than our rich resources, has made our industries highly productive and enabled them to pay high wages, as soon as we stopped drawing upon an inexhaustible reservoir of cheap labor. However, there is still a great deal of bootlegging in men which still helps to depress the labor market. Since Mexico is not on the quota basis, that country has become our chief source of cheap labor, and this is now our chief menace.

The second hindrance is partially removed by our prohibitory law. In spite of the enormous amount of bootlegging, the wage workers are, in the main, protected against this menace by the high price of bootleg liquor. Instead of regarding this as discrimination against the laboring man, sensible people regard it as discrimination in his favor. So long as it is the rich rather than the poor who squander their substance on bootleg liquor, it is tending toward equality rather than inequality of prosperity.

The third hindrance is being removed to some slight extent by legal restrictions upon fraudulent promotions. Blue-sky laws, laws regulating the investment of trust funds, and the banking departments and public utility commissions of various states are placing some restriction upon fraudulent promotions and the obviously fraudulent selling of corporate shares. Somewhat more is being done by voluntary agencies, such as certain of our advertising clubs, the better business clubs and commissions, and the committee of the New York Stock Exchange. All these agencies are carrying on an educational campaign and are giving sound advice to small investors. Still more important, perhaps, were the thrift cam-

paigns that were carried on during the war, some of which are still carried on.

Finally, and perhaps most important of all, is the general increase of intelligence respecting capital. So long as the mass of the workers were in absolute ignorance as to what capital was and what it did, they furnished a ready market for the books and the speeches that preyed upon that ignorance to the profit of demagogical writers and speakers. That form of predatory wealth which comes to the writer of a book on the "Fallacy of Saving" and on "The Collapse of Capitalism" is not so much in evidence in this country as it once was, or as it still is in other countries. With these four obstacles removed, our laboring people and many others with small incomes are beginning to take advantage of the many opportunities that are provided for savings and accumulation and for reasonably safe investment.

It is too soon to predict all the results of this diffusion of ownership or to say how far-reaching some of those results may be. It is at least reasonable to expect that when the laboring and capitalist classes become somewhat blended, there will be less class-conscious antagonism between them, even though there remain many laborers who are not capitalists and many capitalists who are not laborers. If the great majority of the laborers are capitalists, even in a small way, and if the great majority of capitalists really have to work in order to earn a living, this blending of the two classes will eliminate the gulf that formerly separated them. The average laborer then will not think of himself as exclusively a laborer and of capitalists as different from himself. He will realize that he is, at least in part, a capitalist as well as a laborer. And when the majority of capitalists have to work to supplement their incomes, they can no longer think of themselves as belonging to a class separate and apart from laborers. It is difficult to see how there can remain a class-conscious antagonism when the two classes have blended even to this extent.

The above suggestion is not to be confused with the suggestion that wage controversies will disappear. A wage controversy is one thing and class-conscious labor conflict is a different thing. Buyers and sellers everywhere dicker and quarrel over prices. So long as they regard themselves as members of the same class, their quarrels do not become class-

conscious. If, in addition to the irritation that grows out of price controversy, the two sides feel that they belong to different social classes, there is a double source of irritation, and the quarrel becomes much more bitter and destructive. Wage controversies of the future, in this country, will probably be much less rancorous and destructive than they have been in the past, because the element of class-consciousness will be eliminated. There is no intelligent and right-minded person in the world who would not welcome the elimination of any source of irritation that is productive of rancorous human conflict. The only people who can possibly regret such a tendency will be those who prosper by creating or leading such rancorous conflicts. The preachers of class war, however, have no more right to our consideration than the preachers of international war.

It is reasonable to suppose also that this wide diffusion of ownership, especially of the shares of large industrial corporations, would result in a real democratization of industry. Where the workers in an industry actually own it or own a considerable share in it, they automatically acquire a place on its councils. The participation of labor in management does not then have to be artificially promoted or based on any artificial ground. This will be real democratization, as distinguished from the spurious sort known as government ownership. The worker on publicly owned property actually feels no more interest in it than the worker on privately owned property. Those who naïvely imagine that every worker on publicly owned property feels that he is working for himself should take the trouble to observe the intense interest that the men who are employed on our public streets or the men who work in the city hall of any city take in their work. If the latter really felt that the city hall was theirs—which they obviously do not—the chances are that they would not work as well as they now do; but as a matter of fact, they feel no sense of proprietorship at all. There is no reason to think that they would feel differently if they worked for a publicly owned railroad or street car company. But if they owned it in the real sense, as they own their houses and household furniture, by virtue of having bought and paid for it, it is no longer necessary, by artificial means, to endeavor to promote an interest in that property.

Students of agriculture have long recognized that absentee ownership is one of the most destructive of all agricultural pests. Neither blight nor bug nor untimely frost so effectively destroys agricultural prosperity as does absentee ownership. Where the owners of land live in one part of the world and the workers on the land live where the land is, there is always class antagonism and poor agriculture. It has long been apparent to some students that similar results come from absentee ownership of industries. We have not, in the past, been able to see how it could possibly be avoided. It looked as though we had to have absentee ownership of large industrial corporations or else return to the small-shop method of production. Very naturally we chose large-scale production and absentee ownership rather than small-scale production with resident ownership. We are beginning to realize, however, that we can have large-scale production under corporate ownership without absentee ownership, or at least without absentee ownership exclusively. The present tendency toward diffusion of ownership, especially the tendency for the employees of industrial corporations and for the customers as well as the employees of public service corporations to buy shares, is merely a substitution of resident ownership for absentee ownership. It would be difficult to name any single change in our industrial life that is more to be desired than this.

With the democratization of industry and the elimination of absentee ownership, we may expect the development of a new interest in their work on the part of all workers, and a new interest in the success of the industries that serve them on the part of customers. It is always difficult for any one to appreciate the other side of any controversy. The customers of the street-car corporation see only their own side and find difficulty in seeing the side of the owners. The owners have the same limitations. But when the customer is part-owner, he is at least in a position to see both sides of the case. The chances of his reaching sound conclusions are greatly heightened. If it does nothing else, this wide diffusion of ownership should be welcomed for the reason that it enables the average citizen to see two sides instead of one side of these great controversies.

The demagogue we have always with us. "Where the carcasses are, there will the eagles be gathered together". Where-

ever there is hate or rancor, there will the cheap politicians flock to fatten on it. Where hate and rancor disappear, the cheap politician will starve to death. This is not the least of the benefits that may reasonably be expected to follow from the wide diffusion of ownership

Most schemes of labor participation in management that are not based on participation in ownership are artificial and have to be fostered by continued persuasion and direction. Participation that is based on ownership does not need the same artificial stimulation.

Any form of labor participation is, of course, unwelcome to that antiquated type of manager who conceived his function to be that of driving men through his power to hire and fire. Any form of labor participation, to some degree at least, subtracts from that power to drive. As labor participation increases, it becomes more and more necessary that the manager should conceive his chief function to be leading rather than driving. Even though he may delegate every other managerial function, he will find more and more that he cannot delegate the function of leading a group of producers or creating an atmosphere favorable to loyal and interested work. It becomes as definitely the function of the industrial manager, as it is of the university president, to create this favorable atmosphere and to stimulate group enthusiasm for a common purpose. The industrial manager of this type will never be afraid of employee participation in ownership, as well as in management.

Employee ownership, that is, the purchase of the shares of the corporation by the men who are employed by it, is not the only or even the most important phase of the tendency toward diffusion of ownership. We shall have diffused ownership when laboring people and all others with small incomes invest small sums in bonds and preferred stock as well as in common stock of industrial corporations. In general the advice to small investors should always be to look for safety of investment rather than voting power. If a laboring man is so fortunate as to be employed by a corporation whose securities are as dependable as any that can be found, there is no reason in the world why he should not invest in the shares of that corporation; but multitudes of laborers must be employed in new enterprises that have not yet been thoroughly tried out. The securities of such corporations must, of course, find

buyers or there could never be any new enterprises started. Neither the laboring people employed by such corporations nor any one else with a small income should be encouraged to invest in such enterprises. Here is the field for the expert investor who has considerable sums of money of his own and is able and willing to give his time and expert attention to the problem of investing it. After a corporation engaged in this kind of an enterprise has proved its stability, the original investors may be tempted to sell to small investors who are seeking safety and who are willing to pay a high price to get it; that is, who are willing to invest for very small returns or low rates of interest. The expert investor can well afford to sell out and use his expertness to his own advantage by seeking newer investments that promise higher rates of interest. Under this general policy the old well established industries would be owned more and more by large numbers of small investors, including not only the employees of these corporations, but also the employees of other corporations that have not yet reached that stage of stability, and by multitudes of other people of all classes who are not in a position to take many chances with their investments.

Even though most working people with very small incomes do not themselves invest directly in the shares even of the most stable corporations, they become virtual owners when they leave their savings on deposit in savings banks and allow the banks to do their investing for them, or when they buy insurance and allow the insurance company to do the investing for them. The phenomenal growth of industrial insurance in the last few years shows that this form of diffused ownership is progressing rapidly. The sixty billions of dollars worth of life-insurance policies owned by many millions of individuals are themselves forms of diffused ownership, even though these virtual owners do not exercise control over the industries in which their funds are invested.

At this point, it is perhaps desirable to distinguish between a wide diffusion of ownership and a wide diffusion of control. If we are to have large-scale production, we must of course have large aggregations of capital invested in individual plants. If the securities of these plants are widely distributed, we have diffused ownership, but obviously the control must be somewhat centralized in boards of directors and executive officers.

A WIDER DISTRIBUTION OF SECURITIES IN RELATION TO SUSTAINED PROSPERITY

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WHAT is the bearing of a wider distribution of securities upon sustained prosperity? That the problem of sustained prosperity is far from simple must be evident to any one who tries to understand exactly why we cannot contrive, as consumers, to acquire and enjoy the goods which, as producers, we can readily turn out.

Consider the anomalies of the situation. We work hard to pile our shelves with highly desired commodities; and then we stop working because we do not know how to take these things off the shelves and enjoy them. Though producing much less than our labor and capital, under more favorable conditions, could easily produce, we do not distribute to advantage even what we succeed in producing. We so involve ourselves at times that—incredible as it seems at first thought—we should actually benefit by giving the goods away, by sending them abroad to people who cannot pay for them, or even by burning them up. We ascribe our troubles in part to the extravagant buying of consumers at the very time when industry slows down because consumers are not buying enough. Then, while industry wanes because it lacks consumers, we put taxes on consumption; and precisely when business most needs increased consumers' income, we reduce that income by reducing wages. We strive to send more and more of our own real wealth abroad, but we are loath to accept any real wealth in exchange, since our people are unable to continue, for any length of time, to buy the wealth which they themselves produce. Before we have discovered how to use to advantage what we already have of capital facilities, we feverishly build more. By thus investing our savings, instead of consuming them, we deny ourselves to-day in order that we may have a greater output in the future; although already we can produce more than we know how to use. All this seems paradoxical. Yet this is merely a glance at the surface of things; it gives no idea of the underyling complexities of our present money and profit economy.

The key to the paradox is the failure of consumers' purchasing power to keep pace with the production of consumers' goods. The end of all economic activity is consumption. All our elaborate agencies of production and distribution exist for that sole purpose. Wheat is not raised to fill warehouses; goods are not assembled to stock shops; ships are not built to rot in shipyards. Money spent by consumers, therefore, is the force that keeps the wheels of industry moving. Current consumption is the chief incentive to current production: deficiency of current consumer buying is the chief cause of unemployment. Failure of consumers to buy spring goods checks the production of fall goods, not only because it dispels confidence, but also because it ties up capital. In other words, production looks for its regulator to distribution; and distribution in turn is regulated by the flow of money through consumers' markets. This flow of money, therefore, is the most fundamental of the many factors that have a part in business fluctuations—chief among the many factors that help or hinder us in our efforts to attain and maintain larger production and larger real wages.

There is no doubt that people would buy, and continue to buy, a constantly increasing volume of goods, if they had the money; and there is no doubt that producers would provide the goods, and keep employment at a maximum, if they were sure that an increased flow of money to consumers would match the increased flow of goods into consumers' markets. Give consumers enough money to consume and producers can easily get enough money to produce; *but the reverse is not true.* How to sustain consumer demand is therefore the crux of the problem.

It is because consumer demand never is long sustained at a level with production that business is in constant fear of a collapse. No matter how widespread and indisputable the forward movement may be, no matter how favorable all the conditions may be which are commonly regarded as fundamental, nevertheless nearly everybody looks for a recession.

At the present time, for example, the whole economic situation is thought to be remarkably sound. Never before, it is agreed, has there been a more promising combination of the factors that are said to make for prosperity. The political situation is gratifying; business seems assured of four years of

freedom from serious government interference. The agricultural depression is over; the buying power of farm products is almost exactly right for a balanced condition of the industries. Commodity stocks are not excessive; there has been little forward buying. The European situation is much better; the railroad recovery is remarkable; there are no unusual labor troubles; and capital equipment is greater than ever before. The volume of production has been increasing for several months. Most important of all, there is abundant bank credit at low rates, and more confidence than ever before in the intention and ability of the Federal Reserve System to do its part to prevent a business recession. Business men generally cannot see a cloud in the skies. And yet—and yet—economists, bankers, trade journals, and forecasting agencies with one accord warn the business world to be prepared for a setback.

One of the aims of society is increased production; yet the very fact that society is beginning to succeed is regarded as an infallible sign that it is about to fail. The fact that the country is producing steel at ninety per cent of capacity is regarded as a sign of impending trouble. Indeed, one statistician has produced a record of the rise and fall in the number of blast furnaces in operation, which he declares shows that a rise above a certain per cent invariably forecasts a recession in business.

What does this mean? Does it mean that the country already has all the bridges and subways and machines that it needs? Does it mean that all the houses are adequately heated and the farmers supplied with all the tractors that they can use to advantage? Far from it. It means only that business men are aware of the fact that the country has not yet found any way of distributing to those who would like greater wealth, the additional wealth it is able to produce. Indeed, throughout the world the conviction prevails of a limited market, a market which cannot possibly expand rapidly enough to absorb all the enjoyable things the world can produce, a market so limited that wars are inevitable. This is the only sense in which general overproduction is possible. People as a whole, as a result of their joint productive efforts, cannot possibly produce more goods than they would like to consume. All that they ever succeed in doing is to produce more goods than they have the money to pay for.

Why did we succeed during the war in producing vastly more than ever before, even with millions of able-bodied men withdrawn from productive labor? Was it patriotism? Only to a small degree, for patriotism does not enable manufacturers to continue to pile up unsold goods. It was the knowledge on their part that there was a market.

Why should any country ever want to ship goods abroad to people who cannot pay? Why, on the other hand, should any country be afraid to accept reparation payments in goods? Why do earthquakes benefit trade? How can an economic calamity ever be an economic blessing? Questions like these may be answered only in the light of the function and failure of consumer purchasing power. It is literally true that the destruction of wealth may result in economic gain. It is one of the paradoxes of our economic system that wars, earthquakes, fires, floods and frosts are sometimes godsends to business. Whether the net outcome of such disasters is a gain or loss depends on the relation of purchasing power to the supply of consumers' goods. If purchasing power is not keeping pace with supply, and in consequence the price-level is sagging, and unemployment is increasing with its usual train of economic losses, the destruction of goods may help to sustain the price-level, employment, and production, and thus prevent a greater economic loss than that due to the disaster. For wealth that is *not produced,* because men, money, machines, and materials are idle, is wealth lost; it is water over the dam; the loss can never be made up. The crux of the economic problem, then, is how to sustain consumer demand.

No simple solution can be found, since fluctuations in the flow of money to consumers result from many causes; not only from such obvious causes as fluctuations in wage-rates and in employment, but also from taxation, government expenditures, mortgaging of future incomes, and the uses which insurance companies and savings banks make of their funds. The flow of money to consumers also depends in part on the frequency with which money, once spent in consumption, is returned to consumers; that is to say, the average time taken by money to make the circuit from expenditure by consumers through various channels back to another expenditure by consumers. The flow of money, therefore, from use in consumption to another use in consumption should not be overlooked

in studies of the causes of business fluctuations, and of the means of reaching and sustaining higher standards of living.

A wider distribution of ownership of the instruments of production has certain obvious bearings on this many-sided problem, in addition to those which are considered in the other papers. The more extensive and the more equitable the distribution of securities among consumers, the steadier the flow of purchasing power to consumers is likely to be. The reason is, in part, because income from securities flows much more steadily than wages. This is notably true of income from bonds; and it is true of income from stocks of the large companies which already have distributed their shares most widely. No matter what happens to a worker's other sources of income, his stock in the American Telephone and Telegraph Company, for example, yields him a fixed return, quarter after quarter, year after year, through business boom and depression. Apart, therefore, from all the other advantages to society that would result from making every wage-earner a capitalist, is the fact that it would tend toward a steadier flow of purchasing power to consumers; consequently toward sustained consumer buying; consequently toward sustained business prosperity.

Some aspects of the subject are less obvious. The fact that corporations as a whole ordinarily disburse only about half their profits as dividends seems to have an important bearing on business fluctuations. Certainly no one can ferret out all the major causes of business fluctuations until he knows exactly what corporations do with their profits at each stage of a business cycle. However, even if corporations disbursed all their profits as dividends, which is both impracticable and undesirable, this would not make up the deficiency in consumer demand. For the consumer saves at least a part of what he receives as dividends.

Most of what he thus saves has been taken from consumers; but instead of being spent at once for consumers' goods, it is either not used at all, or is first used to buy producers' goods wherewith to make more consumers' goods. In so far as he saves, therefore, he has done his part in causing a deficiency in consumer demand, and a resultant falling off in production. If, for example, he saves eight dollars instead of buying a pair of shoes, it means, as a rule, that one pair of shoes is not manu-

factured; and that particular loss is never made up. Consequently, as business moves forward, and profits and dividends increase in volume, a growing deficiency in consumer demand results in part from the payment of dividends, unless the deficiency is made up from other sources; and the deficiency is never long made up from other sources.

A wider distribution of securities would tend to lessen this deficiency, because a larger proportion of the income from property would be spent for consumers' goods, and a smaller proportion invested—a smaller *proportion,* observe, not necessarily a smaller *total.* That is to say, a more equitable distribution of interest and dividend payments, might bring about increased consumer demand, employment, production, total income from property and, at the same time, increased investments in capital facilities. In short, a wider distribution of securities, as Mr. J. A. Hobson has pointed out, may well lead not only to larger consumer buying but also to larger consumer saving.

If there were only two million stockholders, the proportion of dividends which they would spend for consumers' goods would be less than it would be if there were four million stockholders. So at any other point in the progress toward a wider distribution of securities, the more dividend-receivers there are, the larger the proportion of profits that is used immediately to clear the shelves of finished products. In other words, the wider the distribution among consumers of the money which corporations have taken from consumers and declared as dividends, the longer delayed is the deficiency of consumer buying that brings every forward movement to an end.

This theory is based on a distinction between money invested and money spent for consumers' goods. Many men, however, maintain that there is no important distinction. "What difference does it make," they ask, "whether money is invested or spent? When money is invested, it is not locked up in bank vaults. Most of it is paid out, directly or indirectly, as wages, and thus becomes consumer demand." Says one notable English economist, Mr. R. G. Hawtrey: "Money is spent. . . . The view that the expenditure of wage-earners in some way contributes more to the activity of trade than the expenditure of other consumers is very prevalent, but it is fallacious; once it is recognized that money invested is spent, the argument falls to the ground."

But does it fall so easily? Surely, no one doubts that various factors accelerate the circuit flow of money from consumer back to consumer; nor does any one doubt that an increase in gross wages is one of these factors. This reasoning rests on the fact that money which is disbursed as wages *is spent more quickly* for consumers' goods than money which is invested. And this is an obvious fact. The route from the pay envelope to the retail store is short and direct; but the route from the bank, or insurance company, or investment house, via the corporation to the pay envelope and thence to the retail store, is longer and more devious. And time is an essential part of the problem.

But this is not the only important distinction between money invested and money spent. Money spent is used *first* to take away consumers' goods. Money invested is used *first* to produce more consumers' goods. To prevent a deficiency in consumer buying—to maintain the equation between production and consumption—to make sustained prosperity possible—money which is used in the production of goods must be used in the consumption of goods before it is *again* used in the production of goods; or the effect of such use on the annual production-consumption equation must be offset in some way. Whenever money is used twice in succession to produce goods, it is doing its part to stock the markets beyond the capacity of consumers to buy at current prices.[1] Of vital concern to business, therefore, is the question what proportion of income from property is spent and what proportion is invested. And the proportions depend *in part* on the extent to which income from property is distributed among consumers.

Approximately half the money that is taken from consumers and accumulated as profits, however, is not disbursed to a few stockholders or to many; is, in fact, not disbursed as dividends at all. How much of this undistributed half gets back to consumers and how long it takes, what effect this has upon the relative flow of money into consumers' hands and of goods into consumers' markets, and consequently upon the problem of sustained business prosperity are questions beyond the scope of this discussion.[1]

[1] These questions are discussed at length in *Costs and Profits*, by H. B. Hastings [1923], and in *Profits*, by W. T. Foster and W. Catchings [1925], both of which are issued by the Pollak Foundation for Economic Research, Newton 58, Mass.

NOW AND TOMORROW WITH CUSTOMER OWNERSHIP

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CUSTOMER ownership of public utility securities has inspired wide discussion and comparatively little argument. The word argument necessarily implies two-sided discussion. Yet until recently all discussion of customer ownership has been one-sided. It has insisted that here has been found at last the common-sense solution of the utilities' public relations problems. This is of course an error of enthusiasm. Customer ownership is merely a means toward the solution of the public relations problem, not the solution itself. Understood from all its angles, considered strictly as a business proposition, thoughtfully and conservatively handled, it is a force of incalculable value in the promoting of understanding between public and utility. The modern utility believes—knows, in fact—that if its ideals and ambitions were understood, if it were regarded as a moderately paid servant striving to give satisfaction rather than as a greedy capitalistic monster heartlessly devouring helpless mankind, it would have little to fear from public ownership theorists, socialists, demogogues, and political tricksters and opportunists.

Customer ownership has apparently put fear into the souls of these—fear that here at last has been found material to make impregnable the wall around private business. Yet their attacks recently made, and which this fear has apparently inspired, have in them no thread of argument. They are merely wails against a system of promoting good will which weakens their own position and makes their dreams of the Utopia of Something-for-Nothing seem more difficult of realization to them, and more amusing to the sound-thinking citizenry. Some of them have even gone so far as to suggest the enactment of laws prohibiting customer ownership, such laws being

necessary, they assert, if public ownership is eventually to prevail. In itself this is a confession of weakness—a tacit acknowledging that the system they advocate is not strong enough to compete with any other system having great public support or endorsement.

The writer does not intend here to enter into the argument of public *vs.* private utility operation. It is, however, difficult entirely to avoid the controversy in discussing customer ownership. Public ownership has been a pet theory with political economists of the nostrum-seeking school from the beginning of time. In fact, the well known Adam family, after its ejection from Eden, was to have been operated on a strictly communistic basis, with the people owning everything. But Cain loafed on the job, as someone always loafs in communistic operations, and the ultimate protest by Abel had dire consequences. The loafer destroyed the worker.

But with all the experiments that have been made, public ownership cannot point to one outstanding success which, under frank and fair analysis, will demonstrate superiority of the system over the system of private control. Even those publicly owned projects of which the theorists prate most loudly have maintained the semblance of success only by the careful concealing of facts, the equally careful coloring of publicity, and special laws which have virtually subsidized them. Certainly there is little difference between an out-and-out subsidy and an exemption from taxes and sinking funds which private business must meet and maintain. Public ownership has been unable to stand the test of competition. Under similar conditions it cannot compete with a system that has developed through the ages and has the wisdom of the ages behind it, the system of private ownership, which inspires individual initiative through its promise of individual reward and which makes efficiency the first word of its lexicon of work.

Yet the public has a right in the utility which transcends even the private property rights of its ownership. The utility exists by public franchise, one of the incorporeal hereditaments of common law so long recognized that "the memory of man runneth not to the contrary." It is established to serve the public; it is granted its franchise because of public necessity and convenience. It has certain privileges, such as exercise of the law of eminent domain, which are forbidden to strictly

private enterprises. It is usually granted a monopolistic franchise, another recognition of public interest, as the monopolistic utility is able to render more efficient and more economical service. And in further recognition of its public character, it is limited by law in the duration of its franchise, it is usually regulated as to its rates, its earnings, and its expenditures, and it is under constant scrutiny to guarantee complete protection of public welfare. In return the utility is allowed a fair return upon its capital investment.

No institution is so unhappily open to political attack as the ordinary privately owned public utility. Demagogues, certain types of politicians, and the radical press alike may assail it, denounce it, charge it with responsibility for all the sins wherewith the face of the community is blackened. There is somehow something impersonal in such an attack, which is not aimed directly at the head of any individual. Unfortunately too many people take literally the legal maxim that a corporation, being an artificial person created by law, is without a soul. Even the head of the corporation is merely damned by inference as the highly-paid tool of some sinister influence that keeps itself under cover. The particular utility may be actually earning less than a fair return, which often is the case; but reports of its earnings are told in round and tremendous figures, and not in the seven per cent payment to the small investor. People think of its millions; never of the aged couple whose life savings of a few thousand dollars are invested in its stock. It is usually the biggest institution in the community; it reaches far, touches the daily life of everybody in the community, and so seems bigger even than it really is. To many of the unthinking—or perhaps we should say the uninformed—the utility represents amassed wealth; it is to them the visible, living, breathing, grinding, devastating evidence of that enemy of freedom and democracy, the Money Power, which seems to be something entirely different from the power of money. When another issue is lacking, and it usually is with the politician of limited mentality, he always assails the utility; when news is scarce and interest in editorial wit and wisdom is languishing, the rabble-rousing publisher starts a crusade against the utility. Its monopoly in the rendering of an essential and regulated service is seemingly a far greater public menace than his own unrestricted monopoly of editorial opinion.

Let it not be thought that herein the utilities are heralded as lily-white or that any halos are placed around their heads. They have been guilty of many sins of both commission and omission. If they no longer sin, they may at least be expected to make mistakes, for after all the corporative mind is a collection of individual minds, which means the human element enters into its conduct. And any human institution is bound to make mistakes. But the modern utility tries hard to pursue the right course. If there was a time when it was hated by the public, there was a time too when that hatred was not entirely undeserved. In fact, the evolution of the present understanding of the utility's duty to its community is sufficiently recent to be within the experience of the majority of utility employees. Perhaps the understanding has existed always; but not always have utility men been permitted to do what they knew was right, nor were they inclined always to turn the other cheek to an unappreciative and suspicious public. They were misunderstood, and were resentful. That resentment was manifest in a "public-be-damned" attitude, in the aloofness of the higher-ups, and in the indifference and discourtesy of the employees down the line. But eventually came recognition of the public's right. With it came as something of a revelation the thought that if effort were made, if proper knowledge were disseminated, misunderstandings could be explained away. There started the real work of establishing satisfactory public relations, which means after all merely the creating of good will.

Customer ownership was born of the utilities' need of money and in recognition of the right of "public ownership of utilities" in its true sense, which is ownership by individuals who desired to become partners. It has been to some extent the salvation of financing since big money went hunting tax-exempt investment or opportunity with more hazard and possibly greater return. And it has been the bone and sinew of public relations, when behind it there has been the lifeblood of adequate, satisfactory service. Patently there is an easy and presumably friendly contact between the utility and a stockholder. That contact should be of a personal character if the stockholder is a customer. But if it is to be friendly and satisfactory contact he must be a satisfied customer. He must be convinced that the power company, for instance, in which he

is an owner, is giving just as efficient service as any other power company in the world, and that it is rendering that service with the greatest possible economy. He must be proud of the company, so that he will be proud to be a stockholder. If he is not a satisfied customer, mere ownership of stock is not going to make him a friend.

After all, the success of customer ownership aside from financing is predicated upon service. If the utility serves its customers satisfactorily, and courteously, and if it impresses upon them that it is a human institution rather than a merely efficient machine, it will find customer ownership the second best step in promoting satisfactory public relations. It is to be taken for granted that this is an obvious thought, and that our utilities today—certainly it is the case in the electrical industry—are striving earnestly to render service as perfect as human limitations will allow.

In discussing the significance of customer ownership and speculating upon its future influence on the industry, one can scarcely be expected to develop any radically new ideas. The best minds of the utility industries have assiduously studied the subject from almost every conceivable angle over many years. The experience of all the utilities is virtually the same, and while there may be difference of opinion as to the best methods of placing stock in the customer's hands, there is no difference as to the benefits that have accrued. Only a few years ago practically all the stock in utilities was held by a few men of great wealth. Today, as the result of the customer ownership movement, it is estimated that owners of all the gas, electric railway, and light and power utilities in the country exceed 2,000,000 in number. Definite statement is made that 185 companies reporting to the National Electric Light Association sold 5,047,407 shares to 652,900 stockholders through customer ownership campaigns from 1914 through to the beginning of 1924. These stockholders are scattered all over the country, in the cities, in the villages, on the farms. To quote a happy phrase recently used, "Ownership of America's utilities has passed from Wall Street to Main Street."

This National Electric Light Association report shows each stockholder's average number of shares as 7.7. The utility stock purchase is obviously appealing to the small investor. In looking over the 1923-24 customer ownership campaign

reports of my own organization, the San Joaquin Light and Power Corporation of California, I find some interesting side-lights in the segregated vocational list of shareholders. Among 6,413 new stockholders obtained in this campaign, but three are listed as capitalists and 16 as bankers. Against this there are 415 clerks, 42 carpenters, 237 farmers, 50 contractors, 18 janitors, 33 druggists and drug clerks, 186 laborers, 212 merchants, 113 stenographers, 134 school teachers, 26 telephone operators, 63 nurses, 28 waiters and waitresses, and so on down through a long list of wage-earners. Even more significant of the popularity of our stock with the small investor is the inclusion in the list of 1156 housewives and 1037 minors, nearly all from the homes of wage-earners and small merchants. These people have had to make small investments, and many of them have bought on an easy payment plan. Their incomes are small but sure; and their savings are small but certain. They are typical of the great conservative American majority, and they safeguard their savings by investing in a security they know is sound.

The present significance of customer ownership has application to three factors of utility relationship:

1. The Customer.
2. The Employee.
3. The Utility itself.

The customer primarily buys for an investment. Almost invariably, and usually unconsciously, he takes a new interest in the utility and its affairs. His dividend checks come as symbols of his ownership; the company is his company; he is proud of its growth and accomplishments. Through publicity work that has been carried on in recent years by the electric light and power companies he learns something of the doctrine of self-interest—a business interpretation of the old slogan of reciprocity, "you scratch my back and I'll scratch yours." This doctrine of self-interest lays stress upon the value to the individual of every dollar invested by business. The electric corporations have figured out the increase in community wealth represented by every extension. This extension means a new house or a new business or a new farm development. And each of these represents work for the carpenter, the plumber, the mason, the painter; and each represents more

dollars in circulation in the general channels of trade. In other words, the investor recognizes that, in addition to getting his dividends, he is making a contribution to the promotion of prosperity in which he will share. He becomes a valuable partner, defending the company when acquaintances assail it, boasting sometimes of its accomplishments, reporting to it when he hears criticism of its service.

He is, too, a political asset. His ownership carries responsibility, and knowledge of the business and its relation to general business are necessarily thrust upon his attention. And with such knowledge our customer owner is a better citizen and more likely to use his vote intelligently. In two campaigns in which certain political theorists of radical tendencies have attempted to launch the State of California into a socialistic half-billion dollar experiment in water power development, the 150,000 owners of California utility securities were the great factor in its overwhelming defeat.

In this paper so far I have dealt with customer ownership and not with employee ownership. Yet the sale of stock to customers and employees has run hand in hand. Utility companies have generally offered employees opportunity to buy stock before extending the same offer to the public. They have made exceptionally easy terms, and results have been amazing. Citing my own company's experience again, we offered our employees a chance to buy stock early in 1923. Within two weeks after the offer was made, 98.5 per cent of our regular employees had subscribed. Our experience is in line with that of the majority of other companies. The employee who owns stock has a different point of view. He is working for himself, and like the customer owner he has pride in the institution and its accomplishments. He seeks to make friends for the company, and he becomes an earnest promoter of good will.

I am sure any company executive will agree with me that greater interest in their work and in consequence greatly increased efficiency has followed closely upon the taking in of employees as partners. Two years ago we organized an educational course for employees, a brief series of lectures and readings to give a grounding in company policy, elementary electricity, rates, rules and regulations, and other subjects connected with the business. About thirty took this course, and

several of these took it upon the suggestion of their department heads. Recently we decided to conduct this course again and broadcast an invitation to participate. So many applications were received that restrictions had to be made and many of those thirsting for knowledge were eliminated for the time being. Even with the eliminations the course is now being taken by 625 men and women from the rank and file of the organization, nearly all of them stockholders. It is to the fact of their stockholding that I attribute in great measure this manifestation of interest in the company's affairs. To this same fact also do I attribute the success we have achieved in selling stock through employees. The employee stockholder is an enthusiastic salesman.

As to the company itself, its reactions from customer ownership are many. To begin with, its life is pleasanter. It meets smiles where it once met only frowns. It exists in a friendlier atmosphere, and it has a chance to be friendlier on its own account. It can talk frankly and openly about itself, and get a considerate hearing, for it is talking to an audience comprised largely of its owners. This change in public attitude has wrought a change in the attitude of the utilities; they have an incentive to give better and more courteous service and they are spurred to effort to merit a constantly increasing good will. I believe it can be said in all truth that out of the good will customer ownership has developed, the utilities themselves have acquired a new understanding of public rights and an increased respect for public opinion.

Employees, from executives down the line, are affected in their work. They have to be up and doing. Their job is not to earn dividends for distant Wall Street, but for their intimate Main Street; and Tom, Dick and Harry whom they fraternize with at the Rotary Club are among their employers and have a right to be critical. Customer ownership has added to their responsibility for good service and sound financing.

The future influence of customer ownership is as obvious as can be anything that is essentially of tomorrow. It is growing—each year is adding thousands of new stockholders. It is tapping a broad and almost inexhaustible reservoir of capital, much of which would not be reached through the customary investment banking channels. It is offering a direct and vigorous appeal to the American sense of thrift, and that

appeal is to the wage earner, the salaried man or woman, the small merchant, the farmer, the widow with a moderate estate, the old couple seeking an income from their life's savings. It is an appeal to the bulk of American citizens. Out of it there should develop, if the utilities themselves continue their effort to give adequate service and through their personnel to maintain human contact, complete good-will and understanding. There should come a strengthening of the American policy of private initiative and the rewarding of it. There should come a national sentiment which will relegate into the oblivion of forgotten folly the fetish of public ownership. And at the same time there should come a new species of complete ownership by the public—an ownership that rewards private initiative and private capital, that is open to all the people, and that is free of political influence, direction or possible corruption.

THE DEVELOPMENT OF THE OWNERSHIP OF THE BELL SYSTEM

F. L. DEVEREUX
Vice-President, Bell Telephone Securities Company

FOR many years the American Telephone and Telegraph Company has had a large number of persons interested in it financially, and the company has always encouraged the public to invest in its securities. It had 50,000 stockholders in 1912, which at that time was considered a very large stockholder list. In 1921 its owners had increased to a point where there were more stockholders in the American Company than in any other corporation in this country. Today, the American Company's stockholders outnumber the common and preferred stockholders of the next two largest corporations, and they nearly equal the number of the next three combined. During the period from 1915 to 1920 its number of stockholders increased from 65,000 to 139,400, a gain of 73,900, and in the four years from 1920 to 1924 the company added 206,100 stockholders.

You will be interested to learn that while 348,000 stockholders own the American Telephone and Telegraph Company, it has been conservatively estimated that there are more than 630,000 persons owning Bell System securities. At present more than 62,500 employees of the Bell System are stockholders of record in the American Company and more than 165,000 are acquiring the stock through payroll deductions. There are 215,000 persons owning bonds of the Bell System, and there are more than 22,128 outside holders of common stock of the Associated Companies, and about 162,000 owners of preferred stock of the Associated Companies. Omitting the number of employees who are purchasing stock through payroll deductions, and without attempting to estimate the number of duplicate holders, the number of persons who own Bell System securities is about equal to the population of the City of Boston, while the telephone employees who are purchasing stock through payroll deductions are about the same as the number of persons residing in the City of Dayton, Ohio.

The property of the Bell System is spread throughout the entire Union and its service affords facilities for communication to practically everyone in the nation. There are over 270,000 employees of the system spread through the various states. Telephone employees are interested in their work and they seem to have a habit of telling their friends about it. Since it is the policy of the company to inform its employees about problems of the business, and the public as well, it was only natural that a widespread interest in the business, especially among investors of small means, should develop. The employees have been buying the stock themselves and naturally have been telling their friends about it. This brought about a demand for the stock on the part of the small investor, and there naturally followed in 1921 the organization of the Bell Telephone Securities Company.

The Bell Telephone Securities Company

The activities of the Securities Company have been mainly twofold: first, to secure a wider distribution of A. T. & T. stock, and secondly, to cooperate with the Associated Companies in the distribution of their preferred stocks. The Securities Company has set up machinery to aid the small investor throughout the Union, and its plan of operation is simple. In the beginning we encouraged the employees to continue to speak to their friends and acquaintances about the merits of A. T. & T. stock as an investment, and we arranged with the local banks and brokers, who had expressed their willingness to do so, to aid the small investor to acquire the stock, upon an introduction from one of the telephone employees. Under this arrangement, in a period of about one year, 27,562 persons purchased 429,129 shares. But it soon became evident that there were a great many small investors who had no banking connections and who desired to complete their transactions through the employees of the Bell System whom they knew and in whom they had confidence.

Aiding the Small Investor to Acquire A. T. & T. Stock

And so we evolved what is called the Direct Sales Plan. Under this Plan the company aids the purchaser to acquire the stock in the market either for cash or in monthly payments of ten dollars, or any multiple thereof a share. I desire to

emphasize the fact that the stock is not new stock and the company has no stock to sell. In order to facilitate the transactions, the Securities Company gives to the field people a fixed price for the stock each day and this price is the price at which the last sale was made on the New York Stock Exchange on the previous day, plus the prevailing Stock Exchange commission, which at present is 25 cents a share and which goes to the broker. The Securities Company charges nothing for its service.

The applications for the purchase of stock which are received by the employees are transmitted to the Securities Company each day. This company then arranges to purchase the stock in the open market through brokers who are members of the New York Stock Exchange. The Securities Company has no stock of the American Company to sell, neither is it engaged in marketing treasury stock of that company. It is merely extending its facilities to aid investors to obtain A. T. & T. stock and pay for it either in cash or in monthly payments. During twenty months, ending December 31, 1924, in which this plan has been in operation, employees of the Bell System have assisted 75,106 persons in purchasing 403,499 shares of A. T. & T. stock, involving an investment of over $51,000,000.

Stockholders Subscribe for Additional Stock

The Bell Telephone business is a growing one, and money is constantly required for additional plant. The American Company goes directly to its owners for a great part of the additional capital. For example, in August, 1922, $117,000,000 of stock was offered to its stockholders, and in May, 1924, $153,000,000 was offered. Both of these issues were subscribed almost in total. It is interesting to know in the last issue 192,000 persons subscribed to the new stock, and of these 149,000 subscribed for one to five shares, which was 77 per cent of the total subscriptions. The number of shares subscribed for by these people taking less than five was 336,000, while the total number of shares subscribed for was 1,492,000. Although arrangements were made so that the stock could be paid for in installments, it is interesting to know that 73 per cent of the shares were paid for in full. With the tremendous number of small investors owning stock, we realized that a great number would not appreciate the importance of the

rights or the value of them, and so painstaking efforts were made to inform each stockholder of the value of the rights and the method which he should follow in order to exercise them. The Securities Company provided the machinery to enable those who could not subscribe for the stock to sell their rights and to enable those who wished to purchase additional shares to acquire the necessary rights. As a result, less than two per cent of the stock was unsubscribed.

Preferred Stocks of Associated Companies

During the period in which the Securities Company has been operating, it has cooperated with five of the Associated Companies in the distribution of their preferred stock issues. This stock was sold principally by the employees of those companies to telephone subscribers in their territory. The first venture in this field was with the Southwestern Bell Telephone Company. It began operations in Texas which at the time was considered to be the most difficult state in the Union in which to sell stock. It was arranged to sell this stock through the local banks and brokers as well as through the employees. The employees were able to reach 20,518 persons while the banks were able to reach only 1,762 persons. This emphasizes the particular service we are able to render through our extensive machinery. We can reach great numbers of small investors who are not the legitimate clients of the investment houses and whom the brokers cannot reach, and it is our thought that they will eventually become the clients of the investment houses. The better informed investment houses seem to appreciate this view.

The attitude of the banks was decidedly friendly. Many of them made direct sales; all spoke well of the stock when investors sought information from them. They recognized that our partial payment plan fosters thrift and thus helps the community. The friendly attitude of the banks increased the feeling of confidence among their patrons and had a most helpful reaction throughout the territory.

Following the sale of the Southwestern stock, the Wisconsin Company sold an issue of $5,000,000 with practically the same results. The next issue was by the Chesapeake and Potomac Telephone Company of Baltimore City. Although only 30,000 shares were offered, employees took applications

for 83,485 shares. A most interesting development in this connection was the fact that the switchboard operators in Maryland turned in subscriptions for more than the total issue. The total number of shares offered by these three companies was 201,656, while the purchasers were 47,786—an average of about 4.5 shares each.

But more significant were the larger offerings in New York and Pennsylvania. In these two cases, there were offered 450,000 shares, exclusively through the employees. Applications were quickly received from nearly 200,000 people of small means for about 1,400,000 shares of a par value of $140,000,000. An interesting thing in connection with the Pennsylvania issue was that over 50,000 persons in the State of Pennsylvania purchased one share.

In all of these activities no trained salesmen were used and no special selling force was organized. The job was put up to the everyday telephone employee, and only in the cases of issues of preferred stocks were commissions allowed.

Employee Stockholders

The widespread interest by the public in A. T. & T. stock is only a reflection of the interest that the employees have taken. At present over 62,500 employees are stockholders of record and 165,700 are now purchasing the stock through payroll deductions of three dollars per share per month. The amount of stock which an employee may purchase is limited to one share for each $300 of his salary and the maximum number of shares is fifty. It is estimated that the employees have over $75,000,000 invested in the business and they are now paying at the rate of $20,000,000 a year for additional stock. The average number of shares being purchased by employees is less than four, and the percentage of eligible employees purchasing is fifty-eight.

Widespread Ownership

The list of owners of the Bell System presents a cross-section of the American people. It includes laborers of every sort, farmers, housewives, stenographers, clerks, teachers, students, physicians and others, as well as bankers and capitalists. Of the American Company stockholders, 329,733 own less than 100 shares, 277,479 own 25 shares or less, while 122,769 own

5 shares or less. The average number of shares held is 26. Among the preferred stockholders of three of the Associated Companies, there are 1,249 bankers, 10,700 clerks, 21,600 housewives, 24,317 laborers, 2,700 physicians, 3,000 teachers and 4,100 stenographers.

And so you can see that the Bell System is the most popularly owned enterprise in the world, and perhaps it is rather natural that it should be so. It has property spread throughout the Union. This property, which has a book cost of over $2,270,000,000, is used every hour of the day to furnish service to over 16 million telephones. There are over 270,000 employees whose services are necessary to maintain this plant and to operate the more than 44 million messages flowing daily over 38 million miles of wire.

We believe that it is generally recognized that the stock of the American Company is regarded as a security of high investment standing. Its management is considered to be far-sighted and conservative, and yet progressive, and while the assets of the system are over $2,270,000,000, the capital stock is only $1,093,000,000 and the bonds $752,000,000. As a matter of fact, the price fluctuations of A. T. & T. stock compare favorably with the fluctuations of high-grade bonds. The transactions in this stock on the New York Stock Exchange represent the bona-fide transactions of investors. While 8,884,781 shares of the American Company's stock were outstanding on December 31, 1924, the transactions on the New York Stock Exchange amounted to only 644,326 shares during the year. This is less than 7.3 per cent of the stock outstanding at the end of the year. The United States Steel Corporation had 5,083,025 shares outstanding at the end of 1924. The transactions during the year were 8,910,810 shares, or 175 per cent of the shares outstanding. Similarly, the New York Central Railroad had 3,050,188 shares outstanding, with transactions of 5,160,425 shares, or 169 per cent.

Obviously, no company which is not confident as to the soundness, stability and progress of its business and the safety of its securities can afford to invite ownership, particularly of the man of small means and of limited knowledge. It cannot afford to assume such a responsibility. It is because of the stability and the continuous development of the telephone business and the record of the American Company that it feels

justified in calling its securities to the attention of investors of all sorts.

We believe that in this work we are doing more than to strengthen the financial foundation of the Bell System and to make it possible to secure funds to meet the growing demand of the American nation for telephone service.

The telephone employee who assists his friend in acquiring the stock is not only helping to strengthen the credit of the company, but he is aiding his friend to become an investor in a security which is one of the soundest in the market. He is promoting thrift and the habit of safe investment. He is making friends for himself and for his company, and, in reality, is helping to make this country of ours a better one.

CONSEQUENCES OF IMPERSONAL OWNERSHIP

HERBERT C. PELL, JR.
Chairman, Democratic State Committee of New York

EVERY great social, moral or economic change in any nation is bound to have an effect on its politics. Modern conditions divide ownership of the great fundamental industries of the country among a very great number of people scattered all over, of whom very few have a substantial part of their savings invested in any one security, and of whom even fewer have any real knowledge or control of the companies in which they are shareholders. The arguments used to uphold the present-day system, as against the system which preceded it, are exactly the same as those used by the most advanced advocates of state socialism against the present order. We are told that big business can do better what little business can scarcely do at all; that it can afford efficiency and experiment; that it can wait until a market is developed. All this sounds very much like the glittering bauble which the Socialists offer us in return for our liberty.

The impersonal character of present-day proprietorship is, so far as the general public is concerned, very much the same thing as government control.

The new ownership is the cause of much of the modern toleration of government interference which is so radically altering our entire idea of the proper relation of the citizen to the state. The old belief that the best government was the least government, that it should protect us from force and fraud and then leave us to rely on our own initiative and energy, has practically passed away.[1]

This condition is in practice not far removed from govern-

[1] The spirit of this ideal can, however, be maintained if we set before us the thought that the great duty of the government is to extend the actual field of choice of the average citizen, recognizing of course that this does not mean pure *laissez faire*, which would abandon the weak to the strong, and that economic freedom from the control of powerful individuals is quite as important as freedom from government restraint.

ment ownership or at least from a degree of government control which would have been inconceivable in the days of actual individualism.

Huge organizations of capital, practically without a local habitation and utterly without a personality, can inspire little affection or real interest. Genuinely private enterprises, which throughout the country are actually in the hands of numerous individual proprietors, are not in practice likely subjects for government ownership or undue government control. The personal touch has gone away in many trades and with the doing away of personality there was done away a great part of the feeling against social control of the particular business.

During the last few decades we have seen the ownership and the rule of the fundamental resources of our country pass from the hands of individuals who, for better or worse, thoroughly understood the conditions of the particular industries which they controlled and who could not readily divest themselves of the responsibility of this ownership or avoid the results of their own mismanagement. Their place as owners has been taken by changing groups of the investing public composed of people who, as a rule, have almost no knowledge of the businesses in which they own shares or of the character and intelligence of their administration. We can hardly imagine a stockholder of the United States Steel Company thrilling with joy at the spectacle of a Chinese carpenter using an American hammer, or regretting that Central African savages kill their enemies with bows and arrows rather than with steel knives, in the sense that we can readily imagine Mr. Eastman's delight when he hears that an Eskimo has recorded the charms of his fiancée with a Kodak.

The average stockholder is ready to sell his shares in the P. D. & Q. R. R., over which he has perhaps never traveled a single inch, in order to invest his money in the R. O. T. Manufacturing Company, of which he knows very little. He looks at his holdings in these corporations simply as investments which produce a certain revenue for him or from which he hopes to get a certain profit.

He knows almost nothing of what goes on in his company. As a rule the management takes care that any curiosity on his part shall remain unsatisfied. Ostensible accountings are

made, but in practice these statements mean nothing to him and very little to anyone else.[1]

The directors who are the leaders of the industry and who are legally trustees for the quiescent and apathetic stockholders are in practice utterly irresponsible, frequently ready to betray their trust and always inspired with the idea that so long as dividends are paid no complaints will come, regardless of how the dividends were acquired. These irresponsible leaders have no permanent connection with the organizations of which they are the heads, certainly none which could not be severed practically without loss. Failure of the enterprise, especially if accompanied by large personal gain to themselves, will not bring to them any loss of reputation.[2]

The attitude of stockholders, who are in fact the legal owners, and of the directorate makes it impossible for the employees to have any real personal relation with their employer. Superior employees may be just or unjust, kindly or inconsiderate to their inferiors, but they are all alike in the service of a soulless organization personified as was "John Company" to the East Indians by a series of letters or by a familiar abbreviation. This distant creature is the *deus ex machina* of all of those whose actual labor makes the product of the industry.

Business as a whole shows today, as compared with the past, a very great loss of pride. There is no stigma attached to the leaders of American trade for hurrying to Washington screaming for aid and subsidies. This is of course no new thing. Full of the belief that all they or their stockholders want is profits, they have not hesitated to stoop to every form of political corruption and of journalistic subsidy in order to achieve their result.[3] This recurring demand by all of our industries

[1] For instance, we all remember when about twenty years ago a certain railroad doubled its dividend. That the railroad was in a condition to do so had been effectively concealed from the stockholders, notwithstanding the fact that ostensible accounts had been sent to them at regular intervals, and I believe also from the majority of the board of directors. The news was kept from the general public, and of course from the holders of the stock for a few days after the directors were notified in order to give them an opportunity to loot those whose interests had been entrusted to their care.

[2] *e. g.*, The New Haven; Chicago & Alton, etc.

[3] No man who has ever been within one hundred miles of Washington at a time when a tariff bill has been under preparation can fail to realize that there is little to which the modern business leader will not stoop.

for protection and assistance has paved the way for a greater toleration of the principle of government control, and has to a large extent killed the pride and independence of our big business man. The people at large are opposed to government ownership, not because it would prevent a few powerful men from accumulating fortunes, but because they believe that industries directed by independent and responsible managers with a direct personal interest in the success of the enterprise will produce better results than administration by government functionaries.

It is perfectly obvious that the owners of stock would be quite satisfied on the whole if they were to receive, in lieu of their securities, a government bond of the same value. It is nothing to the ordinary investor where his money is, so long as it is safe and reasonably productive. The laborers would probably just as soon be employed by Uncle Sam as by "the company" on the theory that one abstraction has as much soul as another and that there is more dignity in being a government officer than in being an employee of a corporation.

There seems to be very little realization how all these things are making for the extension of government control in all branches of industry. The irresponsible directorates are being restrained in the interests of the public, of the employee and of the stockholders. The stockholder makes little objection to what goes on so long as he is paid. He takes no pride in an organization of which he knows little and in the administration of which he has really no share. The leaders of the industry are finding it more and more convenient to dip into the the government trough, since they have found that a substantial contribution to a political party will enable them to make up the results of their own inefficiency or dishonesty at the expense of the general public.

The great basic industries of the country are slowly slipping into public control. It will not be many years before we have government ownership and operation of railroads and of most sources of natural power. The people whose money will be used to pay for these enterprises of the government will be as satisfied with government bonds as they are today with stock. The public believes that though the management will have less opportunity for enterprise it will also have less opportunity for illicit profit, and the workers believe that a poli-

tician seeking votes will have more bowels than a director considerate only of dividends.

This change will not come rapidly. Impersonal ownership and irresponsible management have weakened the pride of possession; protection and subsidy are ruining the courage, the enterprise and the responsibility which made the strength of privately owned industry. It is so fatally easy to drop in a contribution and take out a tariff schedule or a subsidy, or a loan or a remission of taxes. Gradually, by usury of chance favors, the government will get itself in full control and ownership of our basic industries. Government aid is the whiskey of commerce. We all remember how Dr. Jekyll found it easier and easier to become Hyde, and harder and harder to return to the arduous and responsible life of an honest and upright citizen, until at last he had to remain Hyde forever. Our industries are rapidly sliding down the path of those who mistake stimulant for food.

POLICY-HOLDER OWNERSHIP AND INTEREST THROUGH INVESTMENT OF LIFE INSURANCE FUNDS

ROBERT LYNN COX
Second Vice-President, Metropolitan Life Insurance Company

LIFE insurance has grown to enormous proportions in America, and its chief characteristic in comparison with other enterprises is that it is conducted largely on a plan involving "customer ownership." Policy-holders and none else actually constitute the company in each of the mutual companies, which collectively have written more than 65 per cent of the life insurance standing upon the books of the American life-insurance companies today.

The importance of this fact will appear when I give you a few figures. At the close of 1924 the amount of insurance in force in the United States companies amounted to $64,000,000,000. We estimate that this insurance represents coverage of more than 50,000,000 people—men, women and children. It is they who really own the enormous reserves held by the life insurance companies, which at the end of 1924 amounted to $10,400,000,000.

Financial leadership of the life-insurance business has been achieved largely through the phenomenal growth of what is known as the legal-reserve or level-premium plan of doing business. This plan requires payment by policy-holders of higher premiums in the early years of insurance than the mortality rates of those years would require, in order that a reserve fund may be established. This fund is then drawn upon in later years to obviate higher and ever-increasing premiums which the increasingly higher mortality rate of the later years of life would otherwise compel.

These reserves are evidence of forethought and thrift on the part of holders of these level-premium policies. They are held in trust, subject at all times to withdrawal of his share by any policy-holder should he not wish to continue with his contract calling for payment at his death of certain specified sums to his beneficiaries. It is these reserves which are invested by

the insurance companies, and it is this money which makes them such a power for wide economic service in the countries in which they are doing business.

The investment of reserves is an essential part of the life insurance business. The preparation of premium rate tables involves the assumption of interest earnings on the reserves that are to be accumulated and held until the maturity of the policy obligations. Should these funds be not invested and reinvested from time to time, the average premium paid by the policy-holder would have to be much higher.

Investment of such funds means nothing less than part-ownership of the properties covered by the securities in which investments are made, although that part-ownership may be thought of and considered merely as the purchase of well-secured bonds, mortgages, etc. So it is that when a railroad is built or extended, a power plant erected, or a sewer system installed, a large part of the capital required by the enterprise will, in most instances, be furnished eventually from reserve funds held by life-insurance companies. The socal significance of these investment operations is an interesting and important feature of the life insurance business.

Out of assets aggregating $10,400,000,000 nearly $4,000,000,000 have been invested in mortgages upon city and farm properties—$2,245,000,000 in city loans and $1,562,000,000 in farm loans. About the same amount is invested in bonds of various kinds. A temporary return of reserves to policy-holders by way of policy loans, amounted, at the end of 1924, to $1,515,000,000.

An analysis of the bond investments shows $2,184,000,000 invested in railroad bonds. This is eighteen per cent of the total bonded indebtedness of the railway systems of the United States ($11,898,000,000) as reported by the Interstate Commerce Commission. Investments in federal, state, and municipal bonds amounted to $1,239,000,000. Investments in public utility bonds amounted to over $490,000,000. Other investments might be enumerated, but these are sufficient to show how extensively life insurance policy-holders as policy-holders are interested financially in the basic property values of the country.

Of equal interest is the fact that ownership of these enormous reserves of life insurance companies is distributed among

nearly twice as many people as voted for president in our recent national election. By dividing the total reserves by the total number of policy-holders, we find that the average reserve for the average policy-holder amounts approximately to $208. Computed on this basis, the interest of each policy-holder seems small, and doubtless it is much smaller than it will be a few years hence.

The institution of life insurance is well-established in the confidence of the people of the United States and Canada. Life insurance has come to be regarded as a necessity by every person who carries the responsibility of providing for the future welfare of himself and others. At the present time the average policy on the average American-wage-earner, according to figures computed recently by the company with which I am connected, amounted to $1218. Obviously, this is not enough life insurance, and must be substantially increased. Therefore, increase will mean not only more policy-holders, but much more insurance per policy-holder. This in turn will mean much larger reserve funds in the aggregate, and far greater investments in securities such as I have mentioned. So, instead of any lessening of property ownership by life insurance policy-holders, there is every prospect of a great extension.

By dividing the total life insurance reserves by the total population of the United States and Canada, we find the reserves averaged $93 per capita. This per capita savings through life insurance purchased by the people of the United States and Canada seems woefully small. But viewed from another angle, we find it is equal to 3.2 per cent of the entire per capita wealth of the United States. And if we turn back to the figures showing the aggregate investments of life insurance policy-holders, and what they have accomplished in the way of building up American and Canadian business institutions, and financing government operations, we come to a realization of the very great importance of widespread thrift—of the putting aside by people generally of the small savings they can afford to make. The average policy-holder may feel that the $208 he has put into a life insurance reserve fund is of little practical use in building railroads or improving lands, but when combined with the savings of others it is largely responsible for the enterprise and development that has given America the economic leadership of the world.

The life insurance business is in its very nature a mutual enterprise. It requires large numbers in order to bring into play the law of mortality average, and, therefore, it cannot function scientifically or safely with small groups or in localities of closely limited areas. It is essentially a cooperative effort on the part of great masses of people. The business affords no proper place for private profit, and in the case of most of the larger companies the possibility of personal profit to those who are managing the business has been entirely eliminated. The policy-holder is the beginning and the end.

It is strange but true that we always seem to feel ourselves to be separate and apart from the great corporations of the country. Doubtless most of us think of the railroads, the traction companies, the power and lighting companies, and other large corporations, as owned by and being run solely for the benefit of a group of people other than ourselves. Therefore, our attitude is often one of antagonism, criticism and obstruction. This is a mistake which I believe will be corrected as we come to a better understanding of the fact that we, the people generally, are the real owners of these enterprises, and that they are being operated for our benefit both in the service they render, and in the profits they make. If we can be brought to full knowledge of the extent of customer ownership, it will go far toward changing our attitude and make us constructive rather than destructive. We are much more dependent upon one another than we are inclined to believe. We are perhaps more truly democratic in our economic affairs than we are in our political affairs. We are indeed mutually dependent, and the success and welfare of each is tied up very closely with the success and welfare of all. Through life insurance a method of spreading cooperative ownership of our large agencies of production and distribution has been developed as a mere byproduct of the business. Through extensive forethought and thrift, which furnish the foundation on which the life insurance business is erected, the common people, whom we know as policy-holders, are rapidly becoming part-owners of nearly all of our large important business enterprises. This is surely an important phase of customer ownership by small investors.

THE SMALL INVESTOR AND RAILROAD OWNERSHIP AND MANAGEMENT

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At the close of the year 1923, the latest date on which official figures of the Commission are available, the outstanding capital stock of all Class I railroads (viz., those whose gross revenues equal or exceed one million dollars per annum) totaled $7,426,906,888, divided among 807,524 shareholders, with an average holding per shareholder of $9,197. This represents an increase of approximately 180,000 in numbers since 1917, while in 1915, 1916 and 1917 the number remained relatively stationary. No comparable data are available for earlier years.

However, by combining certain studies made by ex-Secretary of the Treasury Houston, in the January *World's Work,* and Mr. Slason Thompson, in his *Railway Statistics*, it is possible to take a survey of the growth in popular ownership for a period of forty-three years from 1880 to 1923 based upon the experience of eighteen companies, whose combined stockholders in 1923 constituted seventy-five per cent of the total number. For the first quarter of a century following 1880, there was no appreciable drift towards popular ownership. In each of the last two decades the number of stockholders has approximately doubled. The greatest increase in numbers has been in the last five or six years, given impetus no doubt by the great increase in material wealth during that period and a necessity for seeking investment therefor.

There are no comprehensive data covering stock distribution either geographically or among classes of investors. The Southern Pacific Company, however, made a study of this character in the spring of last year. On the date of this study it had 60,652 stockholders owning 3,443,709 shares of stock or an average owning per shareholder of $5,700 par value. Its stock was held in every state in the Union. Although thus widely distributed, stockholders and stock were nevertheless

largely concentrated in the North Atlantic States. But a trifle over six per cent of its stockholders owning but a little over four per cent of its stock were in states traversed by the company's lines, while over seventy per cent of its stockholders owning seventy-five per cent of its stock resided in the states of New York, New Jersey, Massachusetts, Connecticut and Pennsylvania. From the best information at hand, the above geographical distribution as between North Atlantic and other states may be taken as fairly representative.

Equally interesting is the distribution among classes of investors. Ninety-three per cent of its shareholders owning sixty-eight per cent of its stock were natural persons residing within the United States. Only 548,532 shares of stock or a little less than sixteen per cent stood on the books of the company in the names of firms, chiefly brokerage houses, while the remainder, exclusive of a small proportion held abroad, were owned by banks, trust companies, insurance companies and other corporations. A very considerable part of the stock held in the names of brokers is understood to be owned outright by their customers and kept in brokers' names for convenience in case of transfer, while all the remainder so held is, of course, carried by the brokers on behalf of their customers on margin.

Less than sixteen per cent of this company's stock is therefore, as the expression goes, "held on the Street", and over two-thirds is owned by 56,527 private individuals constituting ninety-three per cent of the company's shareholders, with an average holding of $4,200. The great bulk of this stock is held by small investors. It would thus seem that this company, originally owned in their own right by four daring and far-sighted citizens of Sacramento, of whom the late Collis P. Huntington became the best known, afterwards controlled by the late E. H. Harriman through the ownership of forty per cent of the company's stock by the Union Pacific, has passed into the ownership of the small investor. The transition from Huntington and his associates to Harriman took place in 1901 after the death of the former, and from the Union Pacific to the public since 1913. There could be no more vivid picture of the social and economic revolution that has taken place in the last twenty years in the ownership of corporate property.

It would be unsafe, however, to conclude either from the totals or from the experience of this Company that the increase in popular ownership had become general. On the contrary, growth in the number of stockholders of ten companies, the Atchison, Baltimore & Ohio, Chesapeake & Ohio, Delaware, Lackawanna & Western, Great Northern, Illinois Central, Northern Pacific, Pennsylvania, Union Pacific and Southern Pacific accounts for over eighty per cent of the total increase in the aggregate number of railway stockholders between 1917 and 1923. In fact, nearly fifty per cent of the entire increase within this period is in the stock lists of the five Pacific railroads named above.

The number of stockholders in some other companies suffered some decline in the same period and in others increased but slightly. There are doubtless other companies which have had a substantial growth in the number of stockholders, but it is apparent from the foregoing figures that growth in popular ownership in the case of railway companies represents the exercise of a discriminating judgment upon the part of the small investor rather than an expression of confidence in railway shares generally.

During the same period there has been both a greater and a more general increase in popular ownership of other public utilities.[1] The total capital investment in the electric light and power companies at the close of 1923 has been stated at $5,800,000, divided among 1,250,000 owners, with an average holding per shareholder of $3,800 as against 800,000 railroad stockholders owning $7,800,000, with a per capita ownership of $9,100. In the wire companies the average holding per stockholder in the Western Union has been put at eighteen, and in the A. T. & T., sixteen shares. Active campaigns for employee and customer participation have contributed greatly to the increase in utility shareholders. Increase in railway shareholders has not been appreciably affected by either employee or customer participation. Railway revenues and divi-

[1] More recent figures compiled by Mr. Robert S. Binkerd and submitted in these PROCEEDINGS, show that while railway stockholders grew in number from January 1, 1918 to January 1, 1925 about 50 per cent, street railway stockholders and stockholders in gas, electric light and power companies increased 100 per cent, and in telephone and telegraph companies nearly 270 per cent.

dend rates and market prices of railway shares have not been such as to permit railway companies to sell stock at par and their capital expenditures have been made from surplus or from the sale of bonds.

Within recent years a number of the more progressive railway managements have made efforts at employee participation, but with indifferent success until the recent conspicuously successful campaign of the New York Central. This company had had in effect for several years an employee participation plan, similar to those in existence on a number of other railroads, under which the company would purchase stock at the market for the employee and carry the investment until paid for in small installments. The essential difference between the new plan and the old was that under the new plan such stock was offered to the employee at about $10 below the market price. Since the old plan could hardly have been called successful, while the new one was conspicuously so, the conclusion is warranted that its success is largely attributable to the indirect but substantial bonus thus paid by the company. A consideration of other employee stock participation plans indicates that company contributions either through sales below market or cash bonuses to employee stockholders have contributed chiefly to their success. The general condition of railway earnings and finances in the last ten years has not been such as to justify contributions of this character.

The primary reason why the growth in popular ownership in railway stock has been less than in that of other public utilities appears to lie in the continuous assaults, official and unofficial, on railway revenues. It may be said that the rates of public utilities are likewise subject to public regulation. The valuation of their properties, however, although presenting difficult questions is, on the whole, a much simpler task. Furthermore, with value established, the adjustment of rates so as to yield a fair return is much easier. Such companies usually sell but one product and without competition. Railway rates cover innumerable separate commodities and services, and are affected by consideration of commercial conditions as well as of operating costs. Railway revenues, both gross and net, are likewise more responsive to fluctuations in general business conditions. There is also the depressing influence of pending valuation proceedings, whose outcome is

uncertain. More disquieting even than such uncertainties are the indications of the probable results to be drawn from reports so far released by the Commission's Bureau of Valuation, which if sustained by the Commission and the courts cannot fail to have a disturbing effect upon the minds of those who may have looked forward with hope to the creation of a general confidence in railway shares. Finally, although the Transportation Act has now been in operation for nearly five years, in no single year has the statutory rate of return on the Commission's tentative valuation been realized. The union of all these disturbing factors is believed to be the primary reason why popular ownership of railway shares has lagged behind that of public utilities.

This conclusion is borne out by a consideration of the attitude of the small investor toward railroad shares, as indicated by the foregoing review. While diffusion of public utility stock has been general, growth in popular ownership of railway shares has, as above stated, taken place chiefly in those companies, most strongly intrenched financially and apparently having the most favorable future prospects.

From the foregoing, the following conclusions are deducible: First, as in other corporate shares, there has been a large and increasing drift towards popular ownership. Second, such increase in popular ownership represents the exercise of a nicely discriminating judgment on the part of the small investor. Third, as to a considerable number of companies representing large mileage and of commanding importance in the railway world, the small investor has become an increasingly important factor in railroad ownership and as to some is the most important factor in such ownership. Fourth, popular ownership, so far as it obtains, is concentrated largely in the North Atlantic States, the savings of whose people have always constituted the chief source from which investment in our great national corporations has come, and represents customer ownership but in small measure.

What the future holds may be only surmised. It is, however, apparent that further extension of popular ownership must rest on the establishment of justifiable confidence in railway shares generally. Responsibility for the creation of such confidence rests primarily upon public authority, legislative and administrative. The beneficial social and economic con-

sequences of popular ownership are so great, and the existence of soundly intrenched transportation companies so important to the best interests of the country generally, that it is to be hoped that such authorities may assume in the future a more liberal attitude towards railway problems in relation to both valuation and regulation than has been evidenced in the past.

Judging from past experience, of both railroad and other corporations, it would appear that without bonus contributions substantial employee participation is unlikely. As to further extension of customer ownership prediction is more difficult. Interest rates and the existence of other more attractive forms of investment, particularly in the newer sections of the country where the larger part of our railroad mileage lies, tend to discourage investment in railway shares for the general mass of the public in such sections. Furthermore, the small shipper, businessman or farmer in almost every section can more profitably employ his savings in an expansion of his own business than by investment in railway securities. It must be borne in mind, in addition, that the ordinary public utility is a local institution, serving a single community, coming into daily contact with practically every family therein, while a railroad company usually serves several states and its regular daily customers who come into intimate contact with it and its management are limited to a comparatively small number of large shippers. The differences may be more in degree than of kind, but they necessarily affect the psychological attitude of the possible customer investor and increase the difficulties of approach to him.

Furthermore, with conditions at their best it is believed that railway companies may not look with safety to customer and employee participation for future capital requirements. While expansion of facilities is necessary to the sustained growth and prosperity of any enterprise, it is especially necessary in the case of the railroads. From a half a billion to a billion dollars a year new capital must be annually added in order to make the transportation machine responsive to public need. One hundred and eight-five companies reporting to the National Electric Light Association are reported to have sold stock of the par value of $500,000,000 to 652,900 stockholders through customer ownership campaigns from 1914 to 1923. This is a notable achievement. But the total capital

contributions from this source through a period of ten years represent but the minimum annual requirements of the railways for capital expenditures. In fact, notwithstanding this enormous increase in customer ownership, the members of this association appear to have relied chiefly upon the marketing of securities through investment bankers for new capital requirements. Apparently customer ownership has been more important in the good will that it produces than as a means of raising new capital. Good will is as essential in railroad operation as in any other business. It is to be hoped that customer and employee ownership will increase, but, in view of the enormous sums to be raised, it seems self-evident that railway companies cannot safely rely on either for their requisite perennial financing.

Upon railway management the growth of popular ownership has had no appreciable effect. Since it is in itself an expression of confidence in the efficiency and integrity of the management of the companies in which the small investor has put his money, no other result was to be expected. In point of fact, the greater the diffusion of stock the more likely the continuation of existing boards and managements. So long as the management remains good, the result is good. The inertia of a large mass of small investors, however, makes popular ownership less responsive to needed change than in the days of greater concentration. The principal changes for the better in the personnel of railroad management in recent years have been brought about not through popular uprising on the part of stockholders but through influence of banking houses charged with responsibility for the companies' financing and jealous of their reputation in connection with securities which they may have already recommended to the public or be asked to recommend.

This is not the place to discuss the mooted question of banking influence in railroad management or of the existing system under which each of our principal railroad companies markets its securities through one banking house. While this system has been freely criticized by some, it is believed that not the least of the services performed by such bankers lies in their watchfulness over a company's management and the pressure they are able to bring for a change therein when necessary. It is also believed that with the growing diffusion of stock

ownership and the increasing importance of the small investor as a factor in railroad ownership, the value, if not the imperative need of such banking connections and influence is a matter of increasing importance. Self-interest is after all the most powerful factor in human affairs. A banking house which has put its name behind the securities of a given company and expects to act as its bankers in the flotation of subsequent issues has every incentive of self-interest to provide that check on management which is at all times essential and which with the growth of popular ownership cannot be as well exercised by anyone else. Every small investor should have a greater feeling of security and confidence by reason of this banking influence than he could have without it, and if the small investor could be made to understand the functions and relation of these banking houses to railroad companies and management, it is believed that he would see in such relationship the surest guaranty not only of a continuation of good management but of the prevention or the elimination of bad management as well, which is to him the more important of the two.

Although popular ownership has had no appreciable effect on management, it is not to be belittled or minimized. Its deeper economic and social consequences lie, of course, in the important part which it has played in the increased distribution of wealth and in the democratization of corporate ownership and hence of the ownership of big business. If it had contributed to no other result its value cannot be overestimated. Manifestly also, the larger the number of railway shareholders the larger the number of persons with a kindly feeling for deserving management and a sympathetic appreciation of railway problems.

Furthermore, the effect of diffusion of stock ownership should be to bring about unconsciously a better feeling upon the part of the non-investing public as well, upon whose attitude the future of railway operation and management so largely depends. In many parts of the country a railroad constitutes the principal expression of organized wealth. Frequently its ownership has been associated in the public mind with certain wealthy individuals or families, and even now there are many who look upon the railroads as being owned by and as being an instrument of Wall Street. Railway management must, in the end, justify itself by the public

service which it performs. Knowledge that railway companies are in fact largely owned by a multitude of small investors scattered about the country should, however, unconsciously operate for the removal of that distrust, envy and jealousy which has so frequently actuated the public attitude.

THE RELATION OF LAW TO THE MODERN DEVELOPMENTS IN PROPERTY OWNERSHIP

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ONE of the most significant tendencies in modern business is the increased participation by employees and customers in the ownership of business enterprises. The legal machinery through which this result has been accomplished is predominantly the corporate form of organization and the issuance of stock to the employees and customers.

As yet there has been as a result of this new economic tendency no change in the law with respect to corporations. Consideration should, however, be given to the question whether this new type of ownership does not render desirable certain changes in the law affecting corporations.

The three essential attributes of property are: first, the right to use and control; second, the right to enjoy the fruits and to receive the income; and third, the right to alienate and dispose. Changes in corporation law as a result of employee and customer stock ownership should be considered from each of these three aspects of the nature of property.

The salient characteristic of the corporate form of conducting business is the separation of control from the other attributes of ownership. This is a necessary result of the fact that control must be exercised by few, while ownership of stock is diffused among many. As a result of this situation, the individual stockholder has as little power with respect to the control of his property as the individual voter with respect to the government of his country. The corporate form of organization was developed at a time when the number of stockholders in each corporation was relatively small. The vast increase in the number of stockholders as a result of employee and customer ownership brings up the question as to whether any changes in the existing law are desirable in order more effectively to safeguard the rights of the individual stockholder with respect to the control of his property.

Control of a corporation is actually exercised by the board

of directors and therefore the chief method through which the individual stockholder can exercise a voice in the control of his company is by voting for directors. In many corporations, however, by charter provisions, a portion of the stockholders, and even of common stockholders, has been divested of this right, by the simple expedient of creating Class A and Class B common stock, of which the one without voting rights is sold to employees or customers, and the other is retained by the original owners. From the point of view of the original owners this restriction is justified on the ground that they have been responsible for the development and success of the business and they desire to continue their control notwithstanding the sale of a substantial portion of the company's stock to outsiders, whether employees, customers or others. From a broader point of view, however, this deprivation of common stockholders of the right to vote for directors seems undesirable. The individuals who share in the profits and losses are the real owners of the business, and they should not be deprived of a voice in its control. To do so would be to take from their stock one of the essential attributes of property and would lead to a concentration of power in the hands of a few in a manner inconsistent with the democratic tendencies of our modern political, as well as business, life.

The soundness of this policy of forbidding the separation of ownership from control is shown by the body of law with respect to the illegality of voting trusts. While the older decisions upon the question of voting trusts undoubtedly went too far, and while in many types of cases voting trusts are entirely justifiable, nevertheless the hesitation of the existing law to permit unrestricted voting trusts is an expression of a sound policy. It is, of course, true that recognition of the voting rights of all common stockholders may lead to greater control by employees or customers. It is submitted, however, that although the owner of the business who is about to sell some of his stock to outsiders may look with alarm upon a limitation of his control, nevertheless the social consequences of changing the law so as to permit that every common stockholder shall vote for directors will be beneficial.

The foregoing suggestion has been limited to the rights of common stockholders. The question might also be raised in respect of the rights of preferred stockholders and even of

bondholders. Here, however, it would seem that different considerations apply, as neither preferred stockholders nor bondholders are the real owners of the business, in that they are limited with respect to their share in both the profits and the losses. Consequently, it would seem that their type of ownership is in both cases a qualified type of property and that therefore they are less entitled to share in the control of the business. It might, however, be desirable to provide by law that, as is the practice in many modern preferred stocks, the preferred stockholders should be given a right to vote for directors in the event of their dividends defaulting for a certain period. In the case of bondholders this provision would not seem necessary, as in the event of default, the bondholders under the provisions of the modern corporate indentures have, through the trustee representing them, an immediate right to the appointment of a receiver and to the control of the corporation.

The above discussion has been limited to the question of election of directors. It might well be desirable to provide, as do the statutes of many states, that a certain percentage of common stockholders, as well as of preferred stockholders and bondholders, be required to give their consent before certain important types of corporate action can be taken, such as, for example, the sale of substantially all the assets of the company, the consolidation with another company, etc. Such a provision would, of course, have to be carefully limited so as not to interfere unduly with the necessary discretion which should be left to the board of directors.

A second change in the existing law which is closely connected with the right of common stockholders to vote for directors is the desirability of requiring that at all elections of directors voting should be cumulative, or, to use a more familiar term, that there should be proportional representation on the board of directors. Under the present law, if a corporation has 10,000 shares of stock, and a board of ten directors, the entire board can be elected by 6,000 shares of stock voting together. Under the system of cumulative voting, the 6,000 shares of stock would be entitled to elect only six directors and the remaining 4,000 shares of stock, if voting together, would be entitled to elect the remaining four directors.

The arguments for and against proportional representation in the political sphere are familiar, the chief objection to the proposal being that it would tend to increase the number of blocs in legislative bodies and thus, by rendering a working majority impossible, prevent action. In the case of corporations this danger exists but to a considerably lesser extent, and can probably be safely disregarded. It would therefore seem desirable that proportional representation on the board of directors should be required by law in order to give minority stockholders an effective voice in the conduct of the business. Perhaps the most practicable machinery to effect this end would be to have different classes of common stock for employees, customers and the general public, and to provide that each of the three classes should be entitled, voting separately, to elect a number of directors in proportion to its number of shares of stock. This plan would insure proportional representation more effectively than cumulative voting, but it is open to the objection that when such stock is sold by employees or customers to the general public it would be necessary to provide machinery for the automatic changing of the class to which the stock belonged, a process which would entail practical difficulties, perhaps counterbalancing the advantages of the proposal.

The suggestion of having employees on the board of directors is one which will at the present time probably appear to the American business man somewhat radical. It is a step, however, which has already been taken in other countries and seems inevitable with the increasing democratization of industry. It is true that students of the labor problem differ on the question as to whether labor actually desires a voice in the control of business, but it seems to the writer that giving such representation to labor is not only the granting of a right to which labor is justly entitled as a partner in the enterprise, but is also desirable as a means of helping to adjust the conflict between labor and capital which so seriously threatens the capitalist system. With representation of both employees and customers on the board of directors, it will be possible to determine wage as well as price policies in the light of the conflicting considerations of labor, capital and the consumer; a full and frank discussion of these conflicting considerations around a table by the individuals who are charged with the responsibility for the conduct of the business should lead, more

successfully than the methods now employed, to a satisfactory settlement of differences.

It should be noted before leaving this question that in order to render cumulative voting effective, it will either be necessary to terminate the situation which now frequently exists, where companies have large and unwieldy boards of directors who meet infrequently, while the actual control is exercised by a small executive committee, or be necessary to provide for the same proportional representation on the executive committee. The former alternative would on the whole seem preferable.

A third aspect of the stockholders' control of a company, viz., the power which directors in office have to perpetuate their control, requires fresh consideration as a result of employee and customer participation in ownership. In the normal case, directors manage corporations efficiently and to the satisfaction of the great majority of the stockholders. Exceptional cases, however, occur in which the directors represent a minority of the stockholders and manage the affairs of the company inefficiently and in a manner not in fact approved by a majority of the stockholders. In such a situation, the present law is inadequate. Directors of a corporation are very much like the leaders of political parties in that they conduct matters as they themselves see fit until they do something of which the electorate so strongly disapproves that at the next election they are turned out of office. The difference, however, between the directors of a corporation and political office-holders is that in the former case, the burden is thrown upon those who seek to turn them out of office. The reason for this lies in the fact that just as the town meeting has disappeared in the present era, so has the stockholders' meeting. In the days of the early English corporations, a stockholders' meeting was a very real affair at which almost all of the stockholders attended in person and participated actively in the elections. In England even at the present time this exists, to some extent, but in the United States, with its many corporations having a vast number of stockholders, the stockholders' meeting has become a pure formality; in the case of corporations having thousands of stockholders, it even happens frequently that less than half a dozen appear in person at the meeting.

The actual election is conducted wholly by means of proxies which are sent out by the management or by any group of stockholders who oppose the management. Consequently ousting the directors involves waging a very extensive campaign in that it is necessary to circularize all the stockholders with literature setting forth a criticism of the existing management and asking for proxies in favor of an independent committee. In such a fight for control, the management in turn circularizes the stockholders and sends solicitors to interview personally the larger stockholders, and, in a bitterly fought contest, even the smaller ones. It is a common practice, although perhaps open to legal attack, for the management to charge to the company itself the expenses incurred by them in such a campaign for their reelection. On the other hand, the stockholders who are opposing the management must finance their campaign out of their own pockets. This means that unless the dissatisfied stockholders not only include among their number large stockholders of wealth but also are fairly confident of success in the contest, it will be impossible to raise the funds to conduct the fight effectively. This situation is obviously wrong.

Two solutions suggest themselves. One is that the law should be made clear that the management should not have the right to expend corporate funds for their own reelection. As a practical matter, this proposal does not seem feasible. The other suggestion, which seems more practicable, is that the law should provide that subject to certain limitations, the cost of conducting a contest to prevent the reelection of directors in office should be borne by the company. This suggestion is obviously open to the criticism that it may tend to promote frivolous contests. It would therefore be necessary carefully to restrict its operation, for example, by requiring that a minimum number of stockholders join in the opposition and by limiting the expenditure of funds in some proportion to the number of stockholders of the company. With reasonable restrictions of this nature, it would seem that this proposal would be a satisfactory cure for what is undoubtedly an existing evil.

The fourth aspect of the individual stockholder's control of his company is involved in the question of his ability to obtain information in regard to his company's affairs. While most corporations publish annual statements which give to the stock-

holders complete information in regard to the company, nevertheless, many corporations fail to do so. The balance sheets and the earnings statements which are published are frequently in such form as to conceal from the stockholder the true facts about the condition of his company. It is therefore suggested, that all corporations with more than a minimum number of stockholders should be legally required to publish balance sheets and also earnings statements in a standard and readily understandable form to be prescribed by law. This proposal is not wholly novel, in that it is already required for railroads and for public utilities in certain states. Obviously, there are difficulties in proposing a standard form of statement applicable to all types of corporations and various classifications would have to be made. It is the opinion of accountants, however, that such a proposal is entirely practicable.

The only objection which can be raised to this suggestion is that corporations frequently hesitate to divulge to their competitors certain information with respect to their business. While this objection is a real one, it seems to the writer that it is minimized if all corporations are compelled to publish similar information. Furthermore this objection is counterbalanced by the consideration that it is a legitimate right of the stockholder to have full information about the company of which he is a part owner. Stockholders for example frequently have sought to obtain information from the officers of their company as to the amount of depreciation which had been taken in computing the corporation's earnings and have been met with the response that this information could not be divulged. Clearly, the value of a share of stock is materially affected by the facts in this regard; if the corporation has deducted inadequate depreciation, the published earnings are fictitious, and if, on the other hand, the corporation has deducted more than adequate depreciation, the published earnings are not a true reflection of the value of the stock. In either case, the stockholder is entitled to the information and, with the vastly increased number of stockholders in modern corporations, this right should be protected by law.

Finally, the fact that the stockholder's control of a corporation is exercised through the board of directors leads to a consideration of what is both the most serious and the most vexing problem. It is a most regrettable fact that, under the

present standard of business ethics, directors frequently profit personally by information which they obtain in their capacity as directors. To the lawyer this practice seems most reprehensible. Directors are in a broad sense trustees for the stockholders and any information which they obtain as directors should be used by them only for the benefit of the company and of the stockholders. They resemble any other fiduciary in that it is improper for them to profit from any transactions with those for whom they are fiduciaries, and especially as a result of information obtained by them in their fiduciary capacity. When a director, who has advance information as to the prospects of the company, either buys or sells stock of his company, he is doing a wrong to the stockholder from whom he is buying or to whom he is selling such stock and who has not the benefit of the same information. That directors should not so profit from information obtained by them as directors is so obvious as not to require extended discussion. The problem, however, is how to put an end to the practice in so far as it exists. Probably the only practicable method is to endeavor to raise the standard of business morals so that this practice will in time become recognized as being a type of action in which no self-respecting business man can permit himself to participate. Not only is this solution a slow one, but it is also open to the objection that it will not take care of those directors who are willing to ignore the accepted standards of business morality. It should be possible for our ingenuity to discover some legal machinery to assist in solving the problem.

At the risk of justifiable criticism two suggestions can be tentatively set forth. The first is that the requirement of standard annual earnings statements, above referred to, be increased so as to compel monthly earnings statements to be published. The effect of this would be materially to cut down the advance information of the insider and thus to prevent him from taking as great an advantage of the stockholder as at present. Obviously, in order to render this proposal of any value, the earnings statement would have to be of the nature suggested above, namely, sufficient to give the stockholder real information as to the company's affairs; and the difficulties of enforcing such a requirement by law are obvious. Furthermore, the objection to such a proposal is that a statement of this nature might well be misconstrued and thus

in the end defeat its own purpose. The only answers which can be made to this are: first, that the statements should be sufficiently complete so as to give a true picture and in the case of a seasonal business, for example, to call attention to the fact that the profits during a certain period are normally low or high, as the case may be; and, second, that the stockholders should become educated to a fuller understanding of the nature of the business of the company whose stock they own. Especially in the case of employee and customer ownership, the value of such an educational process would be great, and in fact in the case of all stockholders an emphasis on the responsibility of ownership of stock and on the obligation of the stockholder to familiarize himself with the company's affairs would seem most desirable. A further objection to this proposal is its practical burdensomeness and its difficulty of operation in companies which have, for example, a large inventory. This objection, it is believed, is exaggerated, as is proved by the fact that the New York Stock Exchange requires corporations whose stock it lists to publish quarterly earnings statements. This requirement is being complied with by many corporations and it would not seem impossible for all corporations to comply with this and even the more stringent, requirement suggested above.

A second suggestion which is advanced with even more hesitation than the preceding one is that directors of corporations should be required to file annually a sworn statement as to all transactions had by them in the stock of the company of which they are directors. It is believed that such a requirement would materially lessen the tendency of directors to deal in the stock of their company on the basis of advance information, and would assist in raising the standard of business ethics in this regard. If a director knew that purchases of stock made by him a few days prior to a dividend declaration would have to be disclosed to the public, he would hesitate before purchasing the stock.

The objections to this proposal are undoubtedly weighty. In the first place, it will be urged that it can be so easily evaded as to be wholly inefficacious, because a director could act through a corporation or a dummy. While, of course, the proposed statute would be so drawn that it would require a sworn statement as to all the transactions by the director,

whether made directly or indirectly, it must be admitted that this objection is a real one. However, it is submitted that even though the remedy would not be wholly effective, it nevertheless would be partially so.

Another and even more serious objection is that such a requirement would tend to make men of substance hesitate to accept the position of directors as they would not desire to disclose to the public their personal transactions. This objection is indeed a real one. The only answer which can be suggested—and the answer is admittedly inadequate—is that an individual accepting the position of director of a large corporation must recognize that he is accepting a position of a quasi-public nature and that such a position necessarily entails certain interferences with the right of privacy of his personal affairs. In this connection it might be well to consider the desirability of a change in the American method of compensating directors and to adopt in place thereof the system in vogue in other countries of paying directors adequate compensation for the services rendered by them. This would to a certain extent compensate them for the financial and other sacrifices which they would be required to undergo if the proposal made above were enacted into law.

These two proposals are concededly faulty and also inadequate in that they fail to cover the entire field, for directors frequently profit from the information obtained by them as directors in other ways than in dealing in the stock of their company. Defective as these proposals may be, they are nevertheless advanced in the hope that they will assist in focusing attention upon a question which admittedly requires some solution. Students of economics, as well as business men themselves, should give careful consideration to this problem in the hope that some method may be found to put an end to practices which exist today but which should not be countenanced.

The various suggestions which have been made above with respect to changes in the existing law in order to render more effective the control by stockholders of their corporation and to restrict the action of directors, may seem to many radical. It is believed, however, that, with the wider diffusion of stock ownership resulting from employee and customer ownership, as well as from ownership by the small investor, we have outgrown the corporation laws which were originally created to

meet quite different conditions. The modern corporation, with thousands and even hundreds of thousands of stockholders, is a very different thing from the early English joint stock company, and sooner or later the law must adapt itself to these new economic facts.

The second attribute of property mentioned above is the right to enjoy the income from and the fruits of the property. In the case of stock ownership this right consists primarily in a right to receive dividends. Under the existing corporation law, the question of declaring dividends upon the common stock is almost entirely in the discretion of the directors. It has been suggested by some that there should be a legal restriction upon the right of corporations to accumulate surplus and that after a certain amount had been accumulated as surplus, the directors should be required to pay out additional earnings by way of dividends. To the writer this suggestion seems undesirable and unnecessary. It is undesirable because of the difficulty of adopting a yardstick which is equally applicable to every corporation. No two corporations are alike in their need for accumulating surplus: one may be a business which is stationary in size and which never requires much liquid capital; another may be a constantly growing business with the need for continuous increased investment in plant; a third may be one in which the requirements of liquid capital vary greatly, depending upon prevailing economic conditions. No legal requirement could be laid down which would satisfactorily cope with each different situation. Furthermore, it would seem that the question of the dividend policy is one which can properly be left to the directors and if the stockholders are dissatisfied with such policy their remedy lies in choosing new directors. At the present time, as has already been noted, this remedy is practically illusory; but, if the suggestions made above were adopted, it would become effective, at least, to a substantial extent.

In this connection it is worth noting that the probable tendency of the wider diffusion of stock ownership will be to decrease the accumulation of surplus and to increase the amounts distributed by way of dividends, because of the fact that the small stockholders will insist upon payment of dividends upon their stock and will be unwilling to permit accumulations for distribution at a future date. This may conceivably have the

economic effect of slowing up the accumulation of capital and its transformation into fixed or capital assets. In all probability, however, this will not be altogether the case, as the stockholder receiving the dividends will for the most part not spend the same for consumption goods, but will probably reinvest the major portion in new securities of the same or other corporations so that the earnings will thereby ultimately become transformed into additional fixed or capital assets.

The third attribute of property enumerated above is the right of alienation or disposition. No problem is raised with respect to this right in the case of customers' stock; but a question does arise in connection with employees' stock. Corporations frequently impose restrictions upon the transfer of stock by employees. Usually the restriction takes the form of options to repurchase such stock rather than of an express prohibition against sale which would probably be invalid under the rule forbidding restraints on alienation. The reasons inducing corporations to impose such restrictions on employees' stock are twofold: firstly, the company desires to tie up the employee more closely to it and to this end requires him to continue to own his stock during his employment and to sell it to the company at the termination of his employment. Secondly, the company, especially if it be a small one, desires to have the stock available at the termination of the employment for resale to other employees. This limitation upon the right of employees to sell their stock is probably one which it would be impracticable to declare legally invalid. At the same time, it must be recognized that it is undesirable to bring pressure of this nature to bear upon the employee and so hinder his freedom of action. The possible immediate benefit to the corporation of insuring greater loyalty of the employee is outweighed by the broader social undesirability of artificially restricting the freedom of the employee to act in the light of his own best interests. This objection to this policy of tying up the employee has been admirably expressed in the volume entitled *Profit Sharing, Its Principles and Practice,* of which Edwin F. Gay and Henry S. Dennison are among the co-authors.

Not only is this restriction upon alienation of stock socially undesirable, but in practical operation numerous problems arise. For example, it is difficult to work out an equitable

method of determining the price at which the corporation will repurchase the stock at the termination of the employee's service, especially in corporations whose securities have no quoted market value. The corporation hesitates to pay on a basis of prospective earning power and yet the employee is entitled in fairness to receive such payment. Again if a substantial amount of stock is tendered to a corporation for purchase at a time when the corporation either has insufficient cash for the purpose or has so small a surplus that it is not legally permitted to purchase the stock, then in such a case the corporation cannot avail itself of its rights to repurchase.

In view of these various objections to the issuance of stock to employees with an option to the company to repurchase, it is suggested that a method of accomplishing the desired result, which is preferable from the employee's and also from the corporation's standpoint, is to permit the employee to share in the profits rather than to sell him stock. This is really what employees' stock ownership seeks to accomplish, namely, to give an employee an interest in the business as long as he remains an employee. If stock is sold to an employee elaborate agreements are in most cases necessary in order to provide for his payment of the purchase price out of the dividends upon the stock; and as has been noted above, upon the termination of his employment, the stock is usually reacquired by the corporation. In essence, what is sought to be accomplished by employees' stock ownership is merely to give the employee a participation in the profits during his employment; and a profit-sharing plan fully accomplishes this result, provided it be made a fixed and definite part of the employee's contract of employment and not subject to change at the discretion of the company. If it be urged that profit-sharing fails to give the employee a share in the ownership of the company, the answer is that a profit-sharing contract is in a very real sense a partial ownership of the company. A familiar legal analogy is at hand in the form of the property interest known as a life estate in which an individual during his life has the right to income from property. In the case of profit-sharing, the employee has a right to his fixed percentage of the profits during the life of his employment. It should be noted that, in order to render this type of property ownership complete, it would be necessary to amend our corporation laws so as to provide that

the employees sharing in the profits should be entitled to elect a number of the directors in the proportion which their total percentage of the profits bears to the total profits of the corporation. This suggestion is not wholly novel as the laws of certain states of the United States already provide for the election of some directors by employees.

Profit-sharing as a substitute for employees' stock ownership has a further advantage from the point of view of the employees' interests. No financial adviser of an employee would ordinarily recommend that he should invest his savings in the common stock of the company by which he is employed. The familiar principle that it is unwise to put all your eggs in one basket applies most strongly in this case. There are many unfortunate instances in which employees who have invested in common stock of corporations have found themselves, when disaster to the corporation arrived, both without a job and with all their small savings wiped out. It is a far wiser investment policy for the employee to invest in securities of various other companies; in this way the risk necessarily incident to every business is diffused over a larger group of individuals.

This consideration as to the undesirability of stock ownership from the investment viewpoint of the employee has, of course, application primarily to common stock of small industrials. In the case of common stocks of very large industrial corporations, the risk is to a considerable extent lessened; in the case of common stocks of public utilities and railroads, this is even more so; and, finally, if the employee is purchasing a preferred stock instead of a common stock, the objection just considered becomes minimized. Furthermore, it should be noted that the objection applies primarily to the sale of stock to employees on a small salary and does not apply to the sale of stock to high-salaried executives. The latter class, with their increased earning power, can safely afford to take risks in their investments which the former cannot.

In conclusion, some broader aspects of employee and customer ownership are worth noting. The new tendency has been variously described as a Machiavellian device of the capitalists, and again as a part of the program of the Reds. Undoubtedly different classes of the community will find different reasons for approving or disapproving this new type of

ownership. The conservative business man may perhaps look primarily at the advantages which will follow from employee stock ownership in preventing strikes and hindering the growth of labor unions, and at the advantages which will follow from customer ownership, especially in the case of public utilities and railroads, as a result of the beneficial effect of public opinion upon the various regulatory commissions. On the other hand, a person of a more radical viewpoint may perhaps see the development of employee stock ownership as a step towards the ultimate ownership of industry by labor or may similarly see the increasing customer ownership as a step towards the ultimate control of industry by cooperative organizations.

To the writer it seems that neither of these extreme viewpoints gives a correct picture of the essential nature of employee and customer ownership. The truth is rather that this movement constitutes a method of modifying the capitalist organization of industry so as to make certain changes which the democratic tendencies of modern industry render necessary and desirable, while at the same time preserving the fundamental characteristics of the capitalist system, which, defective though it be, up to the present time, seems to be socially the most desirable that mankind has been able to devise. The modifications in the capitalist system which this new type of ownership is creating consist, in the case of employee ownership, in granting to the employee in one form or another, a share, greater than he receives under the wage system, of the profits which he assists in creating, and also in giving the employee a voice in the control of the business; and in the case of customer ownership, in enabling that portion of the public which is most directly interested in a particular business to have a similar opportunity. The first of these modifications especially is important in that it may well develop into an ultimately satisfactory solution of the problem of the relations of capital and labor.

The movement towards employee and customer ownership is thus, in its broader aspects, wholly desirable. It must, however, be recognized that the movement involves changes in our economic life of a sufficiently fundamental nature to require corresponding changes in our legal system. Some of these changes it has been the object of this paper to suggest.

COOPERATION THROUGH STOCK OWNERSHIP

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WHATEVER special knowledge I have on this subject has been the result of intensive rather than extensive study. I have been an employer of labor for more than thirty years. During all this time, I have had very definite ambitions as to the relation between workers and management. I have studied the industrial problem, not seeking general solutions, but to work out the possibilities in our own industrial group. It is because this work has introduced me very intimately to the problems under discussion that I have been invited to present my own experience with cooperative ownership together with such general conclusions as have formed the necessary background for my work.

And first: Why cooperative ownership? To what end has the question of employee ownership been raised? What solutions are sought by those industrialists who have inaugurated practical experiments along this line? I conceive that the compelling reasons may be classified under one of two heads: first, to satisfy a supposed desire on the part of employees for participation in the management; second, to obtain for the workers a larger share in the fruits of successful operation.

My own experience has not led me to place any great emphasis on the first point. I have dealt with an exceptionally intelligent class of workmen. They realize their own limitations and are more than willing to leave complicated industrial and commercial problems to others, if they have confidence in those others—confidence in their ability to succeed in the commercial struggle, and confidence in the fairness and goodwill of the men in charge, both as to shop conditions and in the division of the results of success amongst those who help to create it.

My interest in cooperative ownership has to do entirely with the second point. I believe in it as a possible solution for certain very serious social problems—sometimes classified as

"labor problems" but, to my mind, closely associated with the broader problem of "the unequal distribution of wealth." I am not one who believes that equality in wealth is possible, but under the *caveat emptor* system to which the nineteenth century has committed our industrial economics, the disparities in wealth are becoming too great. I do not refer to differences in wages or salaries, but to the tremendous disproportion, as between labor and capital, in the acquisition of ownership of the country's surplus wealth.

Wages and salaries today represent the value of services performed, much more nearly than ever before in the history of the world. In addition, employers have become generally more liberal and it has become the accepted policy to build clubhouses, libraries, schools, playgrounds etc. Good as far as it goes. But while capital has been adding millions to wages, it has been extracting for itself increasing billions of wealth-producing assets. The assets of labor are increasing, at best, arithmetically, while capital rolls up geometrically.

All the wealth in the world today is merely the annual surplus of production over consumption, added year after year since man first learned to produce more than he consumed; plus the capitalized value of special wealth-producing opportunities. Hence the owners of the *annual surplus* become owners of the *world's wealth* and since modern wealth consists mainly in the means of production and transportation, ownership of this gives control over all mankind's activities and happiness. When industrialism was in its infancy and this annual increase of surplus wealth was small—only a thin skim on the surface of production, labor could look on complacently, if grumblingly, while most of it was collected by a few millionaires. The laboring man was *then* chiefly interested in "getting a living". But now, when the progress of invention and organization has so increased the efficiency of man's labor that a substantial part of what he produces is saved as surplus wealth, the appropriation of most of this surplus by one class has become a cause of bitterness and alarm to the disinherited majority.

The increase of surplus wealth from year to year is not in the form of money. It consists partly of materials and manufactured goods, but more of it is "plant"—buildings, machinery, railroads, ships and mines which cannot be physically

divided. That it should be so invested is in the interest of society in general and of labor in particular. This annual increase of surplus wealth in the United States is now estimated in billions of dollars. Under the present system, almost all of these billions go to the capitalist class. Labor's surplus saved from wages is pitiful by comparison. Since this is invested mostly in savings banks and securities bearing low interest, labor's return from this source is too small to cut any figure in the ownership of the country's annual increase of wealth. The greater part of this prodigious increase in wealth becomes, each year, the property of the common stockholders of corporations either in the form of dividends or surplus. Capital, represented by common stock, is a huge snowball rolling up in geometrical ratio, while labor goes on gathering what little it can with its hands.

This is where cooperative ownership of industry can play a part—must play a part, if we are not to see an overwhelming majority of disinherited voters turn in desperation and use the power which democracy has given them to equalize wealth by national ownership and national operation of industry. The laboring man must become a capitalist, to an extent comparable with his contribution to the creation of wealth. He can do this only by owning common stock.

It is not enough to say that he can buy this stock as well as the capitalist. By the same token, he could buy clubhouses and libraries as well. The fact is that he does not buy them. When we are sincerely converted to cooperation, when we are converted to the necessity of a more complete financial partnership between capital and labor, we will put our brains and initiative to the task of helping the laboring man own his share of the common stock of the company he works for, and thus, his share of the annual increase of surplus wealth.

Anæmic profit-sharing schemes will never give him his share. Wage increases are, to an extent, illusory; they are part of a vicious circle wherein the manufacturer adds the increase to the price of his goods and the workingman pays it back to him.

The strugle between capital and labor, while rather quiescent just now, is, in my opinion, the great problem of modern civilization. Many men are impatient that no final solution of it is found. My own conclusion, as result of direct obser-

vation and study, is, that no formal solution ever will or can be found. It is a human struggle, rooting deep in the human passion of selfishness and the longing for happiness. The one hope of keeping this struggle from becoming infinitely destructive is for those who are in places of leadership and power to humanize their conception of the relation between labor and capital—to Christianize it. They must cultivate the habit of putting themselves in the place of the great majority and of recognizing their need—not of a certain wage, or a clubhouse or playground, but of *happiness.* Without this, as I said before, I believe the "labor question" is insoluble.

There is abroad a basic misconception as to the nature of the so-called "labor problems". Labor conflicts are not conflicts of reason. They are and always have been conflicts of passion. Attempts to drag discussion of them out into the cold atmosphere of impartial consideration or scholastic analysis have always proved futile. Well-meaning persons are continually appointing well-meaning committees to seek "solution of the labor problem". The feeling is very prevalent, *and very laudable,* that somehow a way should be found to eliminate passion and prejudice from industrial disputes and permit impartial negotiators to decide the issues by the use of some kind of imaginary yardstick of right and justice.

The difficulty with all these plans to denature labor questions—to eliminate passion and heat from industrial struggles arises from the fact that they are as I say essentially and inevitably conflicts of passion. In the early days of industrialism the passion of self-preservation was pitted against the passion of greed. Labor was then weak and pitiful, while greed was frank and respectable. Today that original passion of self-preservation, with its instinctive fight for sufficient food, heat and shelter, is largely supplanted in the hearts of American working men by a burning desire for more of that happiness which seems a perquisite of the privileged few.

The ultimate character of the struggle, however, has not changed in the twentieth century. Passions stand opposed to passions rather than principles against principles. Labor is no longer weak or pitiful but has learned new passions from its masters. It has tasted prosperity and happiness and it wants more.

I defy anyone to point out any principles of inherent right upon which can be based a scientific division of the products of industry between labor and capital. It always has been and it is today purely a matter of how much either side can grasp or can compel the other to disgorge.

I have said that workers should become owners of common stock. I ought not to leave the subject without stating the most obvious difficulties which arise in carrying out that policy.

First comes what might be called the danger of "mob management"—the throwing of the selection of leadership into politics so that industrial and commercial heads are chosen, —well! as our Congressmen are chosen. The answer to this is that cooperative ownership of common stock must come gradually and increase only in proportion as the average workman is educated to understand the dangers, to his own investment, of amateur management; also it can safely proceed only in proportion to the confidence inspired by existing management.

Second: In actual practice, I have found that the average employee is not pleased with the instability of common stock returns. He has an instinctive dread of gambling with his savings. It is only during the last fifty years that he has emerged from a state of mind where he put his savings in a stocking. Hence, after bad business years with their lessened dividends, he looks back regretfully at the savings bank with its small but sure returns.

This will limit but will not, I think, prevent a steady growth of such investment if proper safeguards are thrown around the stock. There will need to be much education. Also, at first the getting in and out of investment in common stock should be made easy. In any case, to whatever extent the fear of the gamble prevents stock ownership, the attitude of workingmen who are offered common stock towards the capitalist who gets rich by taking the chances he himself refuses, will become more enlightened and appreciative.

Third: If cooperative ownership through common stock, or even preferred stock, becomes a country-wide movement there is danger of wholesale swindling of laboring men. It will always be difficult for a workman to learn the facts or determine the safety of such an investment. Unscrupulous people with 'fly-by-night' companies will be tempted to take

advantage of their employees' ignorance. This danger is largely obviated in the case of big national enterprises, by publicity in their affairs. With small companies, conservatism should be used in encouraging employee investment. At first such investments should be permitted only on a very small scale and the increase predicated on the growth of confidence. I feel somewhat diffident on this point, believing that legislation to fit the case must develop as the movement proceeds.

THE LABOR BANKING MOVEMENT IN THE UNITED STATES

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IT is just five years since the labor banking movement in the United States began. In November, 1920, when the bank of the Locomotive Engineers was launched in Cleveland, the country was on the eve of the post-war industrial depression which has hardly been interrupted since. Yet this banking movement has grown more rapidly, and, indeed, more successfully than almost any other new enterprise of the labor movement.

It is a highly significant fact that, in only five years, it has been possible to develop, at so rapid a rate, institutions whose greatest asset is the confidence of the public in them. Already twenty-nine labor banks, with resources of close to ninety million dollars are in operation throughout the country. As the following table shows, these institutions are now to be found in seventeen states under the control and auspices of a highly diversified group of trade unions. In addition to these banks wholly controlled by labor organizations, there are two large banking institutions in which trade unions have a substantial, if not a controlling interest. At their last statement, these two institutions also had combined resources of practically ninety millions.

Labor Banks in Operation[1]

Name of Bank	Location	Date of Opening	Organizing or Controlling Body	Total Resources[2]
Mt. Vernon Savings Bank	Washington, D. C.	May 15, 1920	Cooperative (Machinists)	$3,249,691
Brotherhood Locomotive Engineers Cooperative National Bank	Cleveland, Ohio	Nov. 1, 1920	Brotherhood Locomotive Engineers	25,814,443
United Bank and Trust Co.	Tucson, Arizona	Feb. 1, 1921	Labor Groups	375,442
Peoples' Cooperative State Bank	Hammond, Ind.	Oct. 17, 1921	Brotherhood Locomotive Engineers	1,539,492
Producers and Consumers Bank	Philadelphia, Pa.	Feb. 1, 1922	Cooperative Labor Groups	2,706,977
Nottingham Savings and Banking Co.	Nottingham, Ohio	Apr. 27, 1922	Brotherhood Locomotive Engineers	705,054
San Bernardino Valley Bank	San Bernardino, Cal.	May 5, 1922	Labor Groups—Railroads	1,743,271
Amalgamated Trust and Savings Bank	Chicago, Ill.	July 1, 1922	Amalgamated Clothing Workers of America	2,816,117
Federated Bank and Trust Co.	Birmingham, Ala.	Oct. 2, 1922	Brotherhood Locomotive Engineers (Liquidated and replaced by Brotherhood Locomotive Engineers Bank and Trust Co., Feb. 2, 1925)	....
Transportation Brotherhoods National Bank of Minneapolis	Minneapolis, Minn.	Dec. 18, 1922	Brotherhood Locomotive Engineers, Brotherhood Firemen and Enginemen, Brotherhood Railroad Trainmen, Order Railway Conductors	2,066,202
Amalgamated Bank of New York	New York City	Apr. 14, 1923	Amalgamated Clothing Workers of America	4,635,287
Labor National Bank of Montana	Three Forks, Mont.	Apr. 23, 1923	Brotherhood Locomotive Engineers	198,450
Federation Bank of New York	New York City	May 19, 1923	Labor Groups	8,445,525
Telegraphers' National Bank	St. Louis, Mo.	June 9, 1923	Order of Railroad Telegraphers	5,097,249
Brotherhood Savings and Trust Co.	Pittsburgh, Pa.	July 25, 1923	Railroad Unions	627,727
Brotherhoods Cooperative National Bank[3]	Spokane, Wash.	Aug. 1, 1923	Labor Groups (Railroads)—Brotherhood Locomotive Engineers	2,429,077
Brotherhood Railway Clerks National Bank	Cincinnati, Ohio	Dec. 15, 1923	Brotherhood Railway and Steamship Clerks, Freight Handlers, Express and Station Employees	3,419,102
Brotherhood Locomotive Engineers Cooperative Trust Co.[4]	New York City	Dec. 30, 1923	Brotherhood Locomotive Engineers	6,867,539
United Labor Bank and Trust Co.	Indianapolis, Ind.	Jan. 2, 1924	Labor Groups	524,859
International Union Bank	New York City	Jan. 5, 1924	Needle Trades	3,830,407
First National Bank in Bakersfield	Bakersfield, Cal.	Feb. 2, 1924	Labor Groups	1,278,977

Labor National Bank of Great Falls	Great Falls, Mont.	Apr. 3, 1924	Labor Groups	466,459
Farmers' and Workingmen's Savings Bank	Jackson, Mich.	Apr. 10, 1924	Railroad Labor Unions	463,667
People's Bank and Trust Co.[5]	Los Angeles, Cal.	Apr. 26, 1924	Labor Groups	2,732,775
Brotherhood Locomotive Engineers National Bank	Boston, Mass.	May 24, 1924	Brotherhood Locomotive Engineers.	2,211,812
Labor Cooperative National Bank	Paterson, N. J.	July 26, 1924	Labor Groups	1,330,390
Brotherhood State Bank	Kansas City, Kan.	Sept. 2, 1924	International Brotherhood Boiler Makers, Iron Ship Builders and Helpers, Brotherhood Railway Carmen, Coopers' International Union	523,606
Brotherhood Cooperative National Bank of Portland[3]	Portland, Oregon	Jan. 3, 1925	Brotherhood Locomotive Engineers.	....
Brotherhood Locomotive Engineers Bank and Trust Co.	Birmingham, Ala.	Feb. 2, 1925	Brotherhood Locomotive Engineers.	1,117,062[6]
Banks Partially Controlled by Labor				
Commercial National Bank	Washington, D. C.	Oct. 10, 1904	International Association Machinists (largest individual stockholder)	17,081,106
Empire Trust Co.	New York City	Apr. 19, 1904	Brotherhood Locomotive Engineers (large stockholder)	72,896,375

[1] Brotherhood State Bank for Savings was opened for business August 6, 1924, in Jacksonville, Fla. Stock is owned almost entirely by members Brotherhood Locomotive Engineers, Order Railway Conductors and Railway Machinists. The bank is also officered by some union members. Not listed with labor banks because official connection of Labor with this bank is not yet determined.

Eagle Rock State Bank, Eagle Rock, California, was purchased by Labor Groups in 1924 and held for a short time only. It was then sold to a group of private individuals and is no longer a labor bank. Resources when purchased by the Labor Group amounted to about $150,000.

[2] All statements are as of December 31, 1924, except as follows: Brotherhoods Cooperative National Bank, Spokane, Wash. (Jan. 17, 1925); Brotherhood Locomotive Engineers Cooperative Trust Co., New York City (Nov. 17, 1924); Brotherhood Cooperative National Bank of Portland, Portland, Oregon (Jan. 3, 1925); Brotherhood Locomotive Engineers Bank and Trust Co., Birmingham, Ala. (Feb. 2, 1925), and the Empire Trust Co., New York City (Nov. 15, 1924); Brotherhood State Bank, Kansas City, Kan. (Dec. 26, 1924).

[3] All the Transportation Brotherhoods are interested in the control of the banks in Portland, Oregon, Spokane and Tacoma, Wash., but control is in the Pacific Brotherhood Investment Co. Tacoma bank completely organized, awaiting completion of building.

[4] Purchased Terminal Exchange Branch from Hudson Trust which was taken over by Empire Trust Co., July 9, 1924. Terminal Exchange Branch, with resources about $3,000,000, legally became part of Brotherhood Locomotive Engineers Cooperative Trust Co., October 19, 1924.

[5] Peoples Mortgage Co. is controlled in conjunction with the Peoples Bank and Trust Co. Its resources in Sept., 1924, were $400,000.

[6] Estimated.

As fast as the movement has spread in this short period of time, there are no signs of a lull either in the growth of existing institutions or in the addition of new ones. The following list, while not a complete one, shows that at present something like twenty new labor banks are in the process of promotion and establishment.

PROPOSED LABOR BANKS

Organizing Body	Name of Bank	Location
Brotherhood Locomotive Engineers	Brotherhood Cooperative National Bank of Tacoma [1]	Tacoma, Wash.
Brotherhood Locomotive Engineers	Brotherhood Locomotive Engineers Title and Trust Co.	Philadelphia, Pa.
Baltimore Federation of Labor	....	Baltimore, Md.
Labor Groups	Labor Cooperative National Bank of Newark	Newark, N. J.
International Typographical Union	Labor Bank and Trust Co.	Houston, Texas.
Brotherhood Locomotive Engineers	....	Albany, N. Y.
Brotherhood Locomotive Engineers	....	Syracuse, N. Y.
Brotherhood Locomotive Engineers	....	Buffalo, N. Y.
Brotherhood Locomotive Engineers	....	Milwaukee, Wis.
Brotherhood Locomotive Engineers	....	Salt Lake City, Utah.
Brotherhood Locomotive Engineers	....	Baltimore, Md.
Brotherhood Locomotive Engineers	....	Chattanooga, Tenn.
Labor Groups	Labor Cooperative Bank of Morgantown [2]	Morgantown, W. Va.
Connecticut Federation of Labor	....	Hartford, Conn.
Chicago Building Trades Council	....	Chicago, Ill.
Chicago District Council of Brotherhood of Carpenters and Joiners	....	Chicago, Ill.
Fort Wayne Federation of Labor and Railroad Brotherhoods	....	Fort Wayne, Ind.
....	....	San Francisco, Cal.
Essex Trades Council	....	Newark, N. J.
Brotherhood Locomotive Engineers	....	Seattle, Wash.
Unions affiliated with American Federation of Labor	Union Labor Bank	Buffalo, N. Y.
Amalgamated Clothing Workers of America	Amalgamated Bank of Philadelphia	Philadelphia, Pa.

[1] Tacoma bank completely organized; awaiting completion of building.

[2] No charter had been applied for by Feb. 18, 1925.

The business of these various institutions is naturally a highly diversified one. Some are primarily savings banks; others do a large commercial business. All, as they grow in resources, are coming to exert a growing influence without, as well as within, the labor movement. How ramified their activities are likely to become is now largely a matter of conjecture, but it is reasonable to expect their entry into the manifold activities of finance, which have always engaged the attention of the established banking institutions. As a result of the initiative of the Brotherhood of Locomotive Engineers, seven labor investment companies are now doing business in this country. The promise which such a movement holds out cannot be overestimated.

LABOR INVESTMENT COMPANIES

Name of Company	Location	Date of Opening	Organizing or Controlling Body	Capital
Brotherhood Holding Co.	Cleveland, Ohio.	Mar., 1922	Brotherhood Locomotive Engineers	$1,000,000
Brotherhood Investment Co.	Cleveland, Ohio.	Jan., 1923	Brotherhood Locomotive Engineers	10,000,000
Pacific Brotherhood Investment Co.	Portland, Ore.[1]	1924	Direct Subsidiary of Brotherhood Investment Co. of Cleveland.	1.000,000
New York Empire Co., Inc.	New York City	1924	Brotherhood Locomotive Engineers	500,000
Brotherhood Locomotive Engineers Securities Corporation of New York	New York City	Jan., 1925	Brotherhood Locomotive Engineers	3,000,000
Southern Brotherhood Locomotive Engineers Securities Corporation	Birmingham, Ala.	1925	Brotherhood Locomotive Engineers	2,000,000
Brotherhood Locomotive Engineers Securities Corporation of Pennsylvania	Philadelphia, Pa.	1925	Brotherhood Locomotive Engineers	3,000,000

[1] Offices at Portland, Ore.; Seattle, Tacoma and Spokane, Washington.

These investment companies have a combined capitalization of more than $20,000,000. Figures showing the volume of their transactions are not available, except for the Brotherhood Investment Company of Cleveland whose total assets on December 31, 1924 were $14,885,369.49.

What then is the significance of a movement, like labor banking, that has apparently so quickly caught the imagination of the people inside and outside of the labor movement?

It is of the greatest importance for all of us to consider what the labor banking movement is. What prospects does it hold out? Is it only an accident that several labor organizations decided in the past five years to enter the labor banking field? Or, is labor banking a phase of a larger movement?

I was fortunate to participate in the conference on Cooperation and the Labor Movement held in Chicago in February 1920. There the question of labor cooperative banking was discussed merely as part of a general program of cooperative enterprise to be undertaken by the labor movement. I am satisfied that labor banking is not a mere accident. It has simply attracted more public attenton than other developments in the labor movement for the past few years, which are, in my judgment, of equal significance. Labor's attitude toward labor banking is a product of the post-war attitude of organized labor toward the general problems of industry and of political and social life.

We may, broadly speaking, distinguish between the attitudes of organized labor during the pre-war and post-war periods. Before the war the policy of organized labor was to exercise its power in a negative manner. Its aim was to eliminate and prevent abuse, to protect the members of the organizations from abuse by the employer. The aim of the labor movement was specifically stated in the formula—"a fair day's wage for a fair day's work."

Since the war there can be detected a definite and fundamental change in the point of view of labor. Although this change may not even today be recognized by many who are in the labor movement, no one can question its reality. Organized labor in the United States exhibits a growing tendency to become a constructive and positive force. Labor is looking beyond the formula—"a fair day's wage for a fair day's work." It is looking for a way in which to assert itself and to use its economic power to its advantage. Within the past few years labor organizations have shown some inclination to share in the responsibilities of management. There was a time when the average labor union was fearful of accepting any responsibility in the management of industry. It then held the point of view that management was no concern of organized labor; and that if an industry could not survive, then that industry could go out of business.

Today the attitude is different. It is now becoming recognized that labor, being an essential part of industry, must accept responsibilities. In the railroad industry, particularly in the relation of the Machinists' Union to the Baltimore and Ohio Railroad; in the needle trades, and elsewhere, labor organizations have after the war so modified their habits and policy as to seek the responsibilities of management and to assume them. As a part also of this development, the unions are asking for greater security for their members; and unemployment insurance, through which the industry accepts responsibility for unemployment, prevails now for workers in a large part of the needle trades.

Another phase of this increasing tendency on the part of organized labor to extend the sphere of its activities and to assume the burdens resulting therefrom, is indicated by the growing interest in the labor movement in political activity.

In my judgment the labor banking movement can be judged intelligently only if considered from this point of view. It is the desire of labor to participate more fully in the economic life of the community and the nation, to accept responsibilities, and to receive whatever benefits may come from accepting those responsibilities.

Such appear to me to be the significant roots of the labor banking movement. Influential in the situation, of course, has been the large experience of some unions with the investment of funds, which naturally drew their attention to the banking business. It is, however, a hopeful sign, in this connection, that a field for investment was chosen which is so rigidly under public supervision as the American banking system. Many labor banks threw themselves voluntarily not only under the supervision of state banking departments but joined the Federal Reserve System and then became subject to federal supervision as well. It was clearly the intention of the leaders of the movement not to permit a few private individuals to ride on the wave of the cooperative movement and to gain the benefits for themselves.

Regardless of what our notions may be of the ultimate goal of this movement, it is unquestionably a constructive movement. It is a movement that puts large organizations in touch with the specific daily responsibilities of industry. It aims at the acquisition of the knowledge of management by these large

groups. It means placing a larger and larger group of people in direct contact with the problems of our complicated social and economic life.

It has, in addition to this most fundamental function, already indirectly conferred many benefits and is likely to extend such benefits much more widely in the future. Almost at this moment, for example, our organization, the Amalgamated Clothing Workers, has completed plans for the erection of cooperative houses by a corporation which is sponsored by our organization, in cooperation with the Amalgamated Bank of New York. This project will initially involve an investment of over $1,000,000. The plan is to construct now 250 apartments with over 1,000 rooms. We expect to rent these rooms for $5.00 less per month than they could be rented from individual profit-making corporations. We expect to give the average person using four rooms the equivalent of a $20.00 wage increase in this manner. But what is more important is that we are placing a group of people in the position of being their own landlords, of actually building their own homes and managing them. In this way the labor movement gets the knowledge and confidence that comes from assuming the functions of management.

In our own bank, the Amalgamated Bank of New York, we made during the last year 1700 individual loans on a six per cent basis, each loan being below $300.00. We have made it possible for the individual worker to avail himself of credit facilities at a reasonable rate, the same rate at which the large corporation can borrow in the ordinary banking institution. These people would before pay to the various institutions that cater to that type of business from fifteen to twenty per cent interest.

We organized in our two banks a foreign remittance service. We were among the first to recognize the need for sending actual American dollars to countries abroad when their currency was valueless and when individual banks made very large profits by selling marks, roubles and other currency. We instituted a dollar remittance service, especially in Russia, at a time when the Russian rouble was absolutely valueless. We have so far delivered, through our two institutions in Chicago and New York, 300,000 individual remittances, aggregating ten million dollars in actual American

dollars; and at a very low cost. Why? Because, after all, these institutions are concerned more with service than with profits. As a matter of fact, the dividends of the labor banks are in most cases limited to ten per cent. Showing a profit at the end of the year is merely a proof that the institution is being run on a sound basis. The motive behind labor banking is service and not profit-making.

Whatever may be said concerning the ultimate development of labor banks, (and I believe that no one is really in a position to predict what it may mean), they will perform a function entirely different from that performed by such devices as employee participation in ownership or other methods for the wider diffusion of ownership. What distinguishes labor banking and the other new cooperative enterprises of the labor movement from these plans for the wider distribution of property is the former's provision for taking over the responsibilities of management as well as of ownership.

It would be a misfortune if a large number of owners suddenly began to take their powers of ownership seriously. I question what might happen when great numbers, inexperienced in management, proceeded to assume the functions of management. Suppose they all assign their proxies following a campaign more or less like our political campaigns, in which we know that all issues but the essential ones are discussed. It may very well happen that, under such circumstances, management will suddenly be turned over to a group of people who have neither the knowledge nor the experience to run institutions with resources of over a billion dollars. I read recently the statement of a large insurance company of which I happen to be part owner. I note that it has resources of over one billion dollars. Imagine the consequences if a large group of stock-holders should take charge of that billion-dollar institution. It is, I think, placing too much confidence in democracy to believe that such enterprises can be run without any preparation or experience.

To me the hopeful aspect of this new attitude of labor, not only from the point of view of the labor movement but also from that of the public at large, is that power and responsibility are being assumed together. There is no question, I believe, in the mind of most people that democracy is preferable to any other form of government. We all know, however, that

in our political democracy we have reached a state where less than fifty per cent of those eligible to vote avail themselves of their right, and in some states the number is as low as ten per cent.

We must realize that the democratic form of government is bound to penetrate our industrial life as well. It cannot be confined merely to our political institutions. It, therefore, seems all-important to me that we should find a way for the introduction of democracy into industry whereby experimentation with the popular conduct of industry will be so gradual that mistakes will be corrected without disastrous effects on the industry and the nation in general. For these reasons, the labor banking movement, being merely a sign of the general tendency of organized labor to participate constructively in the economic and social affairs of the community, should be welcomed. It is the one constructive way to meet the industrial problems that now confront us.

DISCUSSION OF EMPLOYEE PARTICIPATION IN OWNERSHIP

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OF course I am for a wide distribution of corporation securities but I would like to see it made on the right basis. Employee participation in ownership is not a panacea for industrial and political ills. Management is very much more statesmanlike; publicity, more thorough and intelligent; and the Liberty Bond campaigns taught wage earners much about investments. But you teachers and publicists and we business leaders should be careful to bear in mind that after a worker has shown the industry and self-control to save money, he cannot be made into an all-round, well balanced capitalist by an enthusiastic stock salesman's talk. An optimistic general appeal for employee participation holds possibilities of great dangers.

The significance of a fact or of a group of facts can hardly be understood without considering it in connection with all the related and connecting facts; nor can a subject as big as this, with its ramifications, be adequately considered in the time given. However, I will sketch rapidly a few of the questions this subject suggests.

First, I want to call your attention to the fact that this age in which we live, these last three or four hundred years, is not "the industrial revolution" at all; it ought not to be called that. It is an age of general education. We should never forget that Western Civilization once suffered the terrible period we call the Dark Ages. That retrogression was due largely to the failure of society to produce the competent thinkers, leaders, and teachers in sufficient numbers to supply the population with that important element, so necessary for progress. Men, for lack of competent teachers and leaders, lost faith in themselves, in one another, and in the future. Ignorance, suspicion and fear reigned in the minds and spirits of men for centuries. It took the laborious work of the Renaissance, the Reformation, and the printing press to

broaden the desire for knowledge to where it reached through the middle and into the lower classes. This wider dissemination of learning secured for the average man benefits never before enjoyed. By reason of increased knowledge, men's faith and confidence in themselves, in their fellowmen, and in the future expanded. As the average man learned more, his desires increased, as did his willingness to work that these might be gratified. And so this age, probably the best for the average man the world has ever known, began.

That part of the great field of gainful pursuits which we call "industrial activities", by which raw materials of small relative value are made ready for the consumers' use through production, transportation and distribution, is largely made up of human energy of all kinds—mental, spiritual and manual work. The way in which this energy is applied may be divided into three heads: capital, or saved-up labor; management—analysis, thinking through to a logical conclusion, planning, teaching, and leading with enthusiasm—the direction of labor; third, labor itself or the ordinary, day-to-day activities of people employed in the more simple routine duties.

Through industry and self-denial, well organized people work more than immediate necessities require and save some of their earnings to provide for the future. The property so accumulated and the rights growing out of its use and possession are what we call capital. Western civilization exists by the consumption of capital and must constantly produce it. Capital is an accumulation of the products of past labor capable of being used in support of present or future labor. J. S. Mill describes it as follows: "What capital does for production is to afford the shelter, protection, tools, and materials which the work requires, and to feed and otherwise maintain the laborers during the process."

Sound finance is a vital principle in every successful business undertaking. To finance an undertaking properly and secure results satisfactory to stockholders, workers and the public, management must understand people, material and the value of time.

Management has to understand several groups of people. First, the customers—in a sense the public. What desires will be catered to? How much of desire will crystalize into demand? How long will the demand endure? The second

group is composed of those who put forth the effort to supply the demand. Here the question of the leader is: "What ability have I and how must I be supplemented?" The third group is the investment public. Under our system in America and the system of Western civilization, any man has an opportunity to put his savings to work in industry.

Now the big thing in finance that we know least about is credit. It has been in civilization since the beginning of trade, yet it is a mystery to most men. This mighty factor, credit, is belief, faith, confidence in an orderly stable future and in the truth of something; based at times on the good reputation of individuals, at other times on the good repute of goods. While we are moved to act in regard to it on beliefs, if we use it wisely, those beliefs must be largely founded on knowledge.

The expansion of credit, together with the increased knowledge of science, affairs, and men generally, paved the way for a wide use of the corporation. Bonds and stocks are credit slips evidencing certain interests and pass from one capitalist to another on faith. The corporation is an artificial entity, created by law for certain clearly defined purposes. It is used in many cases as a device to limit definitely the financial liability of a promoter or promoters of an enterprise. Generally, by reason of the limit placed on a stockholders' liability, the corporation is used as a means of assembling a large amount of capital in small units from numerous investors to back an endeavor, requiring a greater amount of capital, or involving a greater risk than one man, or a few individuals, would care to assume.

The rapid development that has taken place in America, particularly in the last one hundred years, could not have been possible without some understanding of credit on the part of leaders and without the use of that great mental and spiritual machine—the corporation. Very little of the volume of our business is done by the individual or by the firm; practically all of it is done through the corporation. So, a business discussion as broad as this necessarily must deal with corporate use, must consider stockholders, the investment public, then the organization of human beings, who make use of capital furnished by the stockholders, and last but not least the consuming public—that is, the customer.

The fact that credit comes from mental and spiritual attri-

butes accounts for its not being more widely understood. Truth evidenced by physical things perceived through the physical senses is more easily comprehended. For example, assume we select a hundred average men from an unestimated number that pass on Broadway; probably all of such a group would understand to some degree the importance of quick transportation of passengers and goods and of quick transfer of information and news; but hardly one of them would have more than a vague idea of credit in its broad and general use.

Archæological research shows the use of credit seven or eight thousand years ago. The high interest rates ranging from thirty to forty per cent per annum clearly indicate that faith, confidence and courage were at a low ebb. Then men generally doubted the established order. War ideals caused instability. No man could feel confident of the future. Yet credit was used and has been used in exchange from the beginning.

The radio, evidenced by a machine and bit of wire, has been in practical every-day use only three or four years. Yet out of those one hundred men of whom probably two or three had a fair idea of credit, perhaps ninety-five could show an intelligent appreciation of radio—this very new energy in our lives. You see, as recent as it is people have seen its physical agent, the machine; they have touched it and heard it. At least three doors of the mind have been open to receive the knowledge. But this mental and spiritual thing credit by itself cannot open a single door of the mind. It must slip in when some other idea has opened the way. Many of the bankers who deal in credit from day to day do not fully understand it. The bank check, a certificate of stock, the currency of the Federal Reserve Bank endorsed by the government, all are agencies of its use, but they do their work so silently and so well that they do not make a direct but only an indirect appeal to the mind.

But there is another subject to be considered before I can make my point, and that is employment.

Corporate activity on a scale requiring organizations composed of a large number of men and women, is very new. We have been pioneering. We have groped along by the "trial and error method." We have naturally made many mistakes. Those people we call the investment public or

capitalists have made some; those people who carry out detailed duties, important but not complex, generally called the labor group, have made some; but the people who have contributed most to the stock of mistakes which all of us are now trying to understand and correct, it seems to me, are those who are classed as management. I have been in the group of management for twenty-six years and want those executives who do not agree with me to remember that I am included in the indictment.

My purpose in calling attention to this important fact is to say that logically management has most to do in correcting its own manners and methods and then leading the other two groups composed of capitalists and workers to correct their manners and methods, if we are to improve conditions for the benefit of all and continue to raise the average man to higher levels of aspiration, desire, industry and understanding. Education is the way out. Truth, not fallacy, must be our guide.

President Coolidge said in his Inaugural Address that human nature is constant. Some philosopher expressed the same idea by saying that "human nature is very prevalent." But however true and steady the line of the law of average may be, the fact that concerns an executive in the day's work is that human beings differ. Cooperation requires the elimination, so far as possible, of the conflict of opinion. It requires, as nearly as it can be accomplished, that the minds of members of an organization meet on important principles.

A leader, aware of thought, feeling and volition inspired by that peculiarly animating and dominant influence we call good spirit, will eliminate doubts, fears and differences by having a policy consistent with good morals, and by having a definite plan, and by persistently teaching policies and plans to associates, and by reducing to a minimum the contacts where there is possibility of conflict.

Compensation arrangements should be simple and easily understood. To build *esprit de corps* nothing beats a fair wage paid promptly at frequent intervals, coupled with an attitude of tolerance, sympathy and understanding on the part of all executives toward those who work under their leadership. By such a method the employee, if a normal man, has food to grow self-respect and self-reliance—the stuff from which the spirit of honesty, loyalty and industry are made.

Loyalty is not a sentiment that can be bought with money. It starts with self-respect and self-reliance. Self-control expressed in what we call industry and thrift contributes to its development. It reaches the production of its finest fruits in the rich soil of the "square deal"; the stimulating atmosphere of mutual tolerance, sympathy and understanding between leader and worker.

There are some leaders in industry with good minds and attractive personalities but without a true appreciation of their own emotions or the emotions of others. Men so endowed usually expect too much of logical reasoning and concise orders. When results are unsatisfactory such leaders often become disappointed with humanity as it is and cynically assume that either fear or cupidity is the remedy. No man can be full of fear and at the same time do good work. Generous wages coupled with injustice will never get efficiency. Superficial methods do not get the fundamental qualities of self-respect and self-reliance that are so necessary in developing good character.

Normal man is ever led by high hopes. The common habit of expecting more than one should makes commissions on sales or on profits and other contingent participations often disappointingly small. An unfortunate result raises controversial questions difficult to settle. Doubts and fears start suspicion and cause friction. Selling stock to employees to get loyalty and contentment on the job or political support is risky and may bring the unexpected, undesired results.

The cycle of business does not run with the calendar. Its duration depends on the mental and emotional reactions and the economic demands of a population. Crowd psychology is subject to variable and uncertain fluctuations that cannot be timed. In business we must keep accounts and render statements at regular intervals. To be a fairly contented investor in the stock of a business corporation, one should know something of accounting, of crowd psychology, and keep up fairly well with current events.

If a capitalist has some understanding of the peaks and valleys of the business curve and is also an employee of the corporation in the capital stock of which he has invested, the ups and downs of a cycle are not so apt to cause a degree of distress which would unfit him for his work.

Today there are many public service corporations engaged in furnishing a well understood and popular service, largely through mechanical devices but with a limited and simple labor content, whose problems are not complex and therefore easily understood by the public. There are telephones and electric and hydro-electric light and power companies and some railroads in this class. Many of them have passed through the speculative exploitation and wasteful pioneer days. Pitiless publicity of their mistakes and careful analysis of their successes are showing them the proper course to follow. Laws have been passed to insure good practice and these statutory regulations protect the small investor and secure for the honest and economic administration a fair chance for fair profit.

The business of banking, that is, buying and selling credit, long ago attracted the attention of the public. In most states good practice has been crystalized into laws. There are statutes regulating not only the organization but the administration of such institutions and the periodic examinations and the publicity required afford protection as well as information to the small and large investor alike. Many capitalists of small means invest in the stocks of the better run banks.

Mutual life-insurance companies, an important group in the class of financial activities, now have statutory regulations and examinations that protect and educate the public, so here too is a safe field for the beginner in the investment of capital.

When we turn to the field of trading, manufacturing and mining corporations, we should remember and teach our employees that while they furnish opportunities for greater profits, the risk is correspondingly increased. They are in a highly competitive field. They have no franchises that protect them from competition, or laws that keep out the crooked and incompetent competitor. They deal in merchandise and commodities that fluctuate and also the human effort content in their production is large and variable.

The risks, too, on management are greater where so much of the capital is in quick-moving assets. So in this class of corporate activities, employee participation in ownership should not be urged thoughtlessly. Only those who have developed a fair business judgment should be asked to invest and even then with the caution that the investor must make his decision on his own judgment.

From years of experience in handling organizations, some of them fairly large, and also from the acquaintance I have had with other commercial and industrial leaders who have had organization problems, I am inclined to believe there are only a few out of a hundred workers who would have an independent self-reliant judgment on the matter of investment; and many of those who have the industry and self-control to save money must rely for some years on other people to guide them in their investments.

It has therefore always been my policy to free my obligation and reputation as a leader from all outside influences, and to use all my powers of persuasion and good will with employees in teaching them and encouraging them in their particular jobs. When they have asked me about investments, I have directed them to the best investment bankers I knew and have told them that I would always advise them as a friend on any particular investment they had in mind, but that I never wanted to be the salesman who led them into an investment.

I have been particularly careful never to try to interest employees in taking stock in any enterprise in which I was the chief executive. Such a venture, while it does not interfere with their efficiency so long as the stock is rising in price and pays dividends, does increase the anxiety and finally affect the loyalty of the employee in the eventuality of a decline and poor business and possible losses; and I have known cases where it has shaken his confidence in his leader.

In conclusion and by way of summary, let those of us who are charged with the responsibility of management and the coordination of human effort and capital, recognize fully our responsibilities for teaching and developing our employees so that they may better understand the problem of business.

Let this group of management find voice and pen that it may contribute more to that great body of thought, feelings and beliefs that we call Public Opinion. This group of business leaders is directly concerned in net profits. That is the front line of the forces that are trying to keep up the stock of capital that must be maintained if civilization is to progress. This is a great truth we should not only teach our employees, but teach the public generally, and constantly keep its importance before the educational, religious and political leaders

who are now through the platform and printing press contributing most of the thoughts and feelings and beliefs that make up that great force. Public Opinion is the executive head of civilization's organization. It is the judge that must listen to contention and conflict and settle differences and coordinate and bring about a meeting of minds and cooperation. Teaching the truth is its best tool.

You, as teachers and publicists, have the responsibility of cooperating with and facilitating the attempts of management to bring about this better understanding, and at the same time of developing a class opinion which frowns upon the idea that the loyalty of employees can be purchased through plans of stock ownership or that the political acquiescence of customers can be obtained by selling them shares of stock.

By leading and teaching employees to obtain a more intelligent grasp of this little understood subject of credit, as related to the problems of management, we shall be developing in them the self-reliance and confidence so essential in making independent investments. If we can bring about this condition, we shall not only have employees who accept the responsibility for the investments they make or the credit they extend, but we shall have a meeting of minds of the citizens of our country and the elimination of much friction in not only economic life but political life as well.

The way for us to improve is to remove the fundamental causes of misunderstanding, namely, ignorance and fear. This cannot be done by short-cuts and inventions or any mechanical method, but must be accomplished through Education.

DISCUSSION: ILLUSIONS REGARDING THE DIFFUSION OF STOCK OWNERSHIP

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I CAME here a profound skeptic of the movement to encourage stock ownership among employees, and I find that most of my skepticism has already been expressed in the papers of Mr. Seligman, Mr. Hillman and Mr. Reyburn.

Just as an indication of my starting point, let me draw a little caricature. Caricatures are unfair but they are often useful in illustrating a point of view. Why has the movement for participation in stock ownership been initiated by those who already control and reap the profits from a large share of industry? Let us consider one of these men thinking it over and saying to himself, " My share of this industry is being menaced on two sides: by the encroachment of the public through legislative enactment, and by the encroachment of labor through labor organization. My purpose is to keep as much of my control and my share in this industry as I possibly can. I shall have to do something about it. I do not want to have the public legislate. I don't want to have to deal with commissions. I don't want to have to negotiate with labor unions. Therefore, why don't I encourage these people to buy stock? Stock owners are not troublesome. They have little power. Their ownership means only the receipt of a dividend over which they have no control except by the purchase and sale of their stock." As we all know, the minority stockholders of most institutions control their management.

Now that is probably a caricature of the motives of most people who have described the advantages of this movement, and yet I think it does point to a real difficulty. We need to increase the interest and the responsibility of the majority of people in the conduct of our industries, for their better management—their better management not only in producing

material things, but in producing happy citizens. But we are not going to do it very effectively, in my opinion, if we confuse technical or legal ownership with the actual object which we want to bring about, or if we proceed in any other way than a practical, functional way to develop the control and the responsibility where they can be effectively exercised.

If you want to give the workmen in your establishment more interest in it, more effective control over its policies and a greater share of responsibility, there is one easy and logical way to do it; that is to recognize and deal with the organization which they have formed for that purpose. A company which refuses to take that simple step but puts forward as a substitute some such scheme as profit-sharing or stock ownership is to my mind seeking a false way of escape, much as a neurasthenic person tries to avoid recognizing and dealing with reality by substitution of an imaginary compensation which really does not mean anything.

In the same way, if you want to deal with the increasing tendency of the public to demand a share in industry in order to bring it closer to the ideal of service, it does not seem to me that you can do so by avoiding the consideration of the part that must be played by the public in its organized political capacity. Political organization is a deep-rooted institution and will exist for many years to come. You can not distribute power by scattering shares of common stock in a hit-or-miss way over the country but not including a very large proportion of the users of the respective services.

I happen to have noted the figures which were presented by Mr. Harris of the New York Central Lines. He said that eight hundred thousand people now own shares of railroad companies. He said that the ideal would be reached when all the people owned railroad shares and that this condition would be a very good substitute for public ownership. Eight hundred thousand people comprise just two per cent of the forty million gainfully employed persons in the United States, and that is a pretty small minority. Even if the increase of railroad share ownership should keep up at the same geometrical ratio as during the past twenty years, it would take between seventy-five and one hundred years for all the gainfully employed population to become railroad share-

owners. By that time our railroad problem will have become an entirely different one.

So it seems that neither qualitatively nor quantitively are we justified in placing so much importance on this special means of solving our problem of control and of sharing the fruits of industry as we are doing.

DISCUSSION: SOCIAL CONSEQUENCES OF EMPLOYEE OWNERSHIP

ARUNDEL COTTER
Editorial Staff, *The Wall Street Journal*

I SHALL endeavor in the short time at my disposal to confine myself entirely to the broader aspects of employee ownership and its social consequences. I shall not attempt to discuss any of the details. Questions as to whether the plans that have been tried out thus far are the best that can be put into effect, time and experience alone will answer. Time also must show what legislation, if any, is needed to protect the employee stockholder. Many of the ideas for legislation to this end suggested by a previous speaker[1] apply in reality to the protection of all minority stockholders. I refer to the cumulative election of directors, standardizing corporation reports etc.

Looking forward into the future it is possible to imagine a time when all the stock of great producing and utility companies will be owned by employees and by customers, and to envisage a period of perfect industrial peace, the lion lying down by the lamb, both having the same interests and ends. But this is more than a trifle Utopian. We cannot, must not, deceive ourselves by hoping for the impossible and shutting our eyes to hard facts. Employee ownership, I think we can state positively, will never completely eliminate the friction between capital and labor. The two are by nature antagonistic. They are two of the necessary props of our social and economic system, two legs of the economic tripod. Their very stress against one another is part of the force that supports that system. And until we enjoy a stable state of society there must be friction between them. But anything that helps to reduce that friction, to bring it as near as possible to the minimum, makes for the good of the entire social body. And, I believe, employee ownership more nearly achieves this than any other means yet devised. It does so because it makes the laboring man, in a way, a capitalist.

[1] *Cf.*, pp. 88-102.

Nor can we expect that employee ownership is going to eliminate the undoubted inequalities that exist in the distribution of the world's wealth. It is not going to equalize the distribution of wealth. This distribution must still be settled, as it has been, by competition, personal initiative and similar forces. But employee ownership should remove some of the injustices and result in a more nearly equable distribution of wealth.

A powerful objection that has been offered against employee ownership is that it is a soporific designed to prevent strikes and industrial disputes generally. This objection is not a baseless one. Employee ownership is apt to have just this result and doubtless many short-sighted employers employ it for no other reason. For employers are no race of super-men. They are, like the rest of us, selfish. But, in many cases at least, theirs is an enlightened selfishness.

If the only advantage to be gained from sale of stock to employees were the prevention of industrial disputes, union labor leaders and others who oppose it would be more than justified. But I deny vehemently that the benefits of employee ownership stop there. Perhaps I can explain myself best by quoting what one important employer said to me recently: "Employee ownership makes better citizens. It gives the stockholding worker a stake in the country and in industry. It helps to make him more responsible and increases his ability to enjoy the satisfactions of life. Such a worker is more valuable to himself, to the employer and to the community."

In the final analysis the most important aspect of employee ownership is that it promotes understanding between capital and labor. The most potent cause of all strife, whether it be between employer and employee, between nation and nation, or between individual and individual, is lack of understanding. To know all is to forgive all. To understand the other man's viewpoint and motives is—granted the other understands yours—a certain promise of peace and justice.

The employee who buys one, five or ten shares of the stock of the company for which he works becomes a partner in that enterprise. He begins to see things from the point of view of the company, because his interests are, to a limited extent at least, identical with the company's. He begins to appreciate the problems and difficulties that capital has to face.

And it must be a very short-sighted employer who, dealing with workers who, he knows, are financially interested in the success of the company, will not endeavor to conciliate them, to understand their problems and difficulties. And when each side seeks honestly to understand, a compromise fair to both seems practically a certainty.

I do not know what the attitude of our representative capitalists is in regard to labor banks, regarding which Mr. Hillman spoke interestingly earlier in the day.[1] But I believe that capital should welcome with open arms any such activities on the part of organized labor. For labor's experience in handling capital, in banking, cannot fail to increase its understanding in respect to capital.

There is another aspect of employee ownership—and of customer ownership too—that I should like to touch on briefly before I conclude. It is an aspect that appeals with particular force to one who, like myself, works in Wall Street, that much abused financal heart of the country. It is this: every year owners of small amounts of capital, inexperienced in investment, are swindled out of an enormous sum—I think this has been estimated at $500,000,000 anually—by sellers of worthless securities. To say nothing of the heartaches and often dire suffering of the losers by these swindles, the entire economic system suffers. The money should instead be going through the arteries of commerce and industry and helping to increase the spending power of the entire community.

Diffusion of securities of sound corporate enterprises among small capitalists, laborers, clerks, tradesmen and so on, not only absorbs some of the money that might otherwise be wasted in purchase of "blue-sky" stock, but helps to educate these small investors regarding the principles of wise investment, and increases the difficulties of the sellers of worthless stock. And such diffusion, by helping to safeguard the people's savings, should result in increased contentment and a higher average of prosperity for all.

[1] *Cf.*, pp. 109-118.

THE EFFECTS OF POPULAR OWNERSHIP ON PUBLIC OPINION[1]

HENRY L. STIMSON
Former Secretary of War

INDUSTRY in America started as a matter of small enterprises and individual proprietorship. At the beginning of our government the overwhelming majority of our people were small farmers and our manufactures were confined to meeting the extremely modest needs of such a simple population. Then with the great era of steam, of the factory, of the corporation came a second period of concentration of ownership and resulting power. Control over our railroads and the new giant manufacturing industries became concentrated in comparatively few hands and this process went on until it seemed likely that the entire power over industrial America might eventually become vested among a handful of men. The political life of America for the last generation has been colored by fears and forebodings which that situation evoked. Now, almost without knowing it, American industry has entered upon a third period. The ownership of our business, particularly of our public utilities, is being expanded. The stock and other securities which represent that ownership are being more and more widely held among greater and greater numbers of our citizens. The change has been so marked that it is amounting almost to a revolution and yet it has come so quietly that many of us had not realized that it was on its way.

The Academy of Political Science has been devoting this meeting to the incidents of this new movement. Its morning session was devoted to that phase of the movement which is concerned with employee participation in the ownership of our industries. The afternoon session was devoted to the similar spread of ownership among customers, particularly of our public utilities. This evening we come to a consideration of the results which grow out of this movement; the ef-

[1] Introductory remarks as Chairman of the Dinner Session.

fects which the new proprietorship is having on the character of industry on the one hand and the character of our national life on the other.

In no sense is this to be a debate on the merits of that ancient question of the comparative advantages or disadvantages of private vs. public ownership. The very question which we are to discuss assumes that America today stands upon a foundation of private ownership. The movement is simply a change in the character and classes of people in whom that ownership is vested, and our discussion is necessarily confined to the effect of such a change. In other words it is really an evolution rather than a revolution.

I wish to call your attention to the potency of a single result of this great movement in diffusion of ownership, namely its effect upon public opinion and sentiment both within and without the industry. The outstanding feature of industrial life which has come with our age of steam and accumulated corporate capital has been that the relations between capital and labor, between producer and consumer, have constantly tended to assume the character of modified warfare. Each class has assumed that it had interests fundamentally antagonistic to that of the other class. This assumption and its consequent spirit of hostility has permeated their controversies, their bargainings and their habitual mutual relationships. Each class has regarded itself as occupying a separate and hostile camp to that of the other and has believed that its benefits could only be sought in the loss or diminution of the rights or benefits of the other.

Such an attitude of mind is almost inevitable where the ownership of the capital and the resulting profits rested entirely in one set of hands, and where neither the laborer nor the purchaser and consumer had any interest therein. We have found it almost impossible by abstract argument to convince men of the underlying unity of interest of capital and labor and of consumer and producer. Aesop's fable of "The Belly and the Members" has for all practical purposes remained a fable still.

An actual blending together of these hitherto separated interests, even if only to a partial and limited extent, will do more for a realization of this fundamental unity than tons of argument or oceans of theory. The public utility manager who

knows that a large portion of his new capital for needed extensions must come from the pocketbooks of satisfied customers will give a painstaking consideration to the adequacy of his service which he never attempted before. The consumer, a part of whose income depends upon the dividends of his investment in a traction or electric light company, will be very shy about encouraging reckless or demagogic attacks upon the business of such companies on the part of his political authorities. The employee who holds stock in his company will not only be more conscientious about his own work but he will keep a shrewd eye upon any slackness on the part of his fellow-workmen and will question union policies which strike at his own dividends.

Some critics tend to belittle the new movement because they do not believe it can or will go far enough to change the ultimate legal control over the industry, and believe that that control will remain vested in the large owners rather than the small owners of stock. I think that they underestimate the immense change which is being effected in public opinion and the power of that public opinion to control the industry regardless of who holds the legal title. Just as public opinion controls the operation of our laws, so it more and more controls the conduct of our industries. Upon that public opinion the new proprietorship is producing a most potent change.

THE DIFFUSION OF PROPERTY OWNERSHIP [1]

HERBERT HOOVER
Secretary of Commerce

I REGRET my inability to attend the dinner which you are so finely enjoying tonight. It is a little difficult, however, to attend two public dinners at the same moment, especially when they are two hundred miles apart, and I have had to compromise by making my participation with you through a ten-minute message by telephone.

I am deeply interested in your discussion tonight because I am convinced that one of the continuous and underlying problems of sustained democracy is the constant and wider diffusion of property ownership. Indeed I should become fatalistic of ultimate destruction of democracy itself if I believed that the result of all of our invention, all our discovery, all our increasing economic efficiency and all our growing wealth would be toward the further and further concentration of ownership. In the large vision we have a wider diffusion of ownership today than any other nation in the world. It has been so since the beginning of the Republic. In our enormous growth in wealth there have been periods when the tendencies were toward concentration of ownership and other periods when economic forces (and public action) made toward greater diffusion. Certainly the forces of diffusion were dominant during the great migration which occupied the West. And again I have the impression that one of the byproducts from the economic shift of the last war has been still another period of increasing diffusion of ownership of property. Our high real wages during the past three years, with consequent general expansion of savings, have, I believe, also marked another period of wider diffusion of property ownership.

It is appropriate that the evidences and the tendencies in this matter should be earnestly examined. We are all fundamentally interested that our economic forces, our public and private policies, should be so directed that with our increasing wealth the tendencies of diffusion of ownership shall be greater

[1] By radio to the Dinner of the Academy of Political Science in New York, March 9, 1925.

than the tendencies of concentration. And if we would grow in standards of living it is equally important that we shall maintain this dominant tendency without destruction of the moral, spiritual and economic impulses of production.

We are woefully lacking in actual facts upon this most important question. From the vast fund of statistical information in the nation we can only indicate tendencies, and then only with some uncertainty. Aside from our inability to determine more than bare tendencies we are unable from the information we have to make the proper and necessary distinction between distribution of wealth, diffusion of ownership, and diffusion of control of wealth—all equally important in any consideration of social as well as economic questions.

For purposes of analysis of diffusion of ownership we might divide property ownership into two categories: on the one hand bank deposits, bonds, mortgages, preferred stocks, in other words, the prior lien securities; and on the other hand the equities generally, as represented by common stocks, land holdings, stocks of goods, tools etc. If we were to make such a division I believe we should find that the high real wages and the vast increase of savings of the past few years have brought about an extraordinary diffusion of what we might call the prior lien ownership. No doubt savings among the people at large first seek the direction of greatest safety by their investment in such prior liens. The vast increase in numbers of savings banks and other distributed deposits, the great growth of industrial and life insurance, the large expansion of the building and loan associations, and the unprecedented absorption of all sorts of governmental securities in small sales all evidence this. In this direction there appears to be an undoubted increase in diffusion of ownership.

The ownership of common stock, land, homes, current goods and other forms which include the equity are, however, the part of the property which carries the control of management, and which in the long run participates most largely in the growth of national wealth. It is in increasing the diffusion of ownership in this area that we shall secure a contribution to the powerful forces which make for social stability. There are a multitude of problems in it when we come to close range. He who owns in this field must take larger risks. That there are many indications of a movement toward diffusion in this

field also is indicated by your discussions. The increase in common stock holdings by employees, by consumers and the public, and in a way also the increase in mutualized banks and insurance companies, the increased volume of operations by farmers' cooperatives, tend toward such a movement.

But there is another field of equity ownership—that of home ownership—where I regret to say that we are going backwards. For twenty years the national ratio of owned homes has fallen slowly and slightly, but steadily. This may be accounted for by special reasons.

In the matter of distribution of wealth as distinguished from diffusion of ownership we have but little fact basis upon which to proceed outside of the income-tax statistics. While they show superficially that diffusion of wealth is increasing yet the exemptions are such as to destroy much of their statistical usefulness. Again we have little information as to the diffusion or concentration of the control of wealth as distinguished from ownership. My impression is that the establishment of the Federal Reserve System and the effect of the Restraint of Trade laws and the inheritance taxes all tend to make for diffusion in this direction also. But at every turn in the study of distribution of wealth and of ownership or control we are confronted with a woeful lack of accurate data.

One of the first requisites for adequate economic discussion, and thus the development of any economic or social policy, must be the determination of the economic fact. We can adduce economic argument, we can point out economic tendencies, but until we have so searching an examination of these questions that we can evaluate them in actual quantities, whether it is dollars or goods, we shall be far afield from the truth. I have seen forty economic arguments in opposition destroyed by one single affirmative argument when quantitative determination was attached to each of them.

I believe your discussions will be a valuable contribution to this subject. The elaboration and development of sound ideas is, of course, the first and fundamental step towards well directed national impulse and national action, and if from your discussion can come the development of method by which we can secure more searching, scientific investigation, more accurate determination of fact, you will have made a great accomplishment.

CONSUMER OWNERSHIP AND CORPORATE MANAGEMENT

HOWARD T. SANDS
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Vice-President, National Electric Light Association

IN the consideration of the topic for the evening it is my privilege to speak for an industry which I believe has made a larger contribution to the industrial expansion of this country than any other single industry, an industry which, though less than a half-century old, represents an investment of approximately seven billions of dollars, is growing at the rate of about one billion dollars a year and bids fair in the not distant future to become the largest single industry in this country; an industry that is furnishing electric light and power service upon which nearly three-fourths of the people of this country are dependent, not only for their comfort and convenience but also for their livelihood.

The history of this industry is that which attaches to all pioneer movements. In the beginning, it had no charted course to follow. It was obliged to blaze its own trail as it pushed steadily forward. Organized at a time when both its technique and fundamentals were but dimly understood by those engaged in the business, and not at all understood by the general public, it has weathered the storms of experiment and change and reached the important position which it now occupies in our social and industrial life.

The rapid expansion and development of this industry, constituting as it does one of the most interesting chapters in our industrial growth, is a part of that great movement which, during the last half-century, has wrought tremendous changes in our social as well as industrial relations. Primitive man was able to shift for himself, so to speak. He found within his own resources all that was needful for his sustenance. The North American Indian found in field, forest and stream all that was necessary to house, clothe and feed him. Our own forbears who first came to these shores exercised practically

the same degree of independence. But as civilization has advanced the status of the individual has gradually changed. This change became the more pronounced when steam and electricity, applied to manufacturing and transportation, made possible our large centers of population. Today we find society composed of individuals who, by virtue of existing conditions, are obliged to look to others for those comforts and necessities which their forbears undertook to provide for themselves. Individual independence has been supplanted by individual dependence, but along with the loss of his independence there has come to the individual the right to expect and to demand from those organizations that have undertaken to supply him with those services that he formerly undertook to provide for himself the rendering of a service commensurate with his needs under conditions which shall not become unduly burdensome to him. The electric light and power companies of this country are among these organizations that have assumed this obligation of service. Their title clearly indicates their function—public service corporations.

In the early days of the industry the problem of financing its undertakings was comparatively simple. While it is true there were but few who were willing to risk their money in new and untried ventures, it is also true that the financial requirements of the business were relatively small. With the growth of the industry and the consequent necessity for new capital in ever-increasing amounts, the investment banker became the wholesale purchaser of the bonds and stocks of these companies. From the investment banker large sums of these securities have been purchased by banks, life-insurance companies and other institutions until today it is safe to say that every individual having a deposit in a savings bank or possessing a life-insurance policy has at least an indirect financial interest in the industry.

To meet the demands for its services, our industry has been obliged practically to double its investment every five years, and this tremendous increase in new capital has necessitated a still wider market for its securities. During the last decade, while recognizing the investment banker as the logical distributor of its senior securities, the industry has turned to a new class of investors, and through the offering of its stock in small lots and on easy payment terms has made it possible

for a large number of people of moderate means to become partners in the enterprise.

During the year 1924 something like two hundred and twenty-five thousand of these small investors—many of them employees or customers—have invested approximately two hundred millions of dollars in the business. In this way there is steadily going on a silent revolution that is gradually bringing about true public ownership of the industry as contrasted with political ownership which is commonly, but it seems to me inappropriately, termed "public ownership".

It is difficult to realize the significance and importance of this new phase of public utility financing, but it can readily be seen that the trend of this movement is to vest the ownership of the industry in an ever-increasing number of people of moderate means, and in that way to bring about the highest form of public ownership without any of the experiments and risks that attach to political ownership.

The advocates of political ownership contend that under their system these services would be furnished at cost. That is exactly what is being done today under private, or, if you please, this newer form of public ownership. The electric light and power companies are furnishing service today at cost—the cost of labor and materials used in generating and distributing electricity, in maintaining the physical property devoted to the public service and in paying the investor a fair wage for his money. All of these elements of cost must be paid whether under public or political ownership.

It would seem, therefore, that the only sound argument that can be advanced for political rather than public ownership is that political ownership would make for greater efficiency in the administration of business than can be obtained under private initiative. Personally, I find nothing in the record of our governmental undertakings to justify such a conclusion.

President Coolidge very aptly summed the situation up in this statement: "The government and its agents are not in possession of any resources, ability, wisdom or altruism except that which they secure from private life. Where the people are the government they do not get rid of their burdens by attempting to unload them on the government. It has always been the theory of our institutions that the people should own the government and not that the government own

the people. James Otis stated this principle before the Revolution when he said that kings were made for the people and not the people for them. This policy cannot be maintained unless the people continue to own and control their own property." And in his inaugural address of last week, when referring to the unmistakable defeat administered in the last national election to the policy of government ownership of the railroads and certain electric utilities, he said, "The people declared that they wanted their independence and freedom continued and supported by having the ownership and control of their property, not in the government but in their own hands. As they always do when they have a fair chance, the people demonstrated that they are sound and determined to have a sound government."

Now, as to the effects of this new ownership, this silent revolution. It is bringing to many an investor, and, perhaps for the first time, a new sense of ownership, of personal interest in, and responsibility for, the welfare of the industry. Already, there is abundant evidence that these new investors are taking this responsibility seriously; that they are regarding attacks upon the industry in the light of their personal interest. It is bringing a better understanding of corporate undertakings, of how money can be and is used in a cooperative way for the service of society.

This sense of ownership is one of the most wholesome effects arising from this movement, and, in my opinion, brings a measure of individual satisfaction that can never be secured by any form of profit sharing. There are, also, signs that these new partners are interesting themselves in the management of the companies in which they have invested, and, in some instances, this interest has been manifested by suggestions for improvement in management. It may be argued that this manifestation of interest in management is an alarming symptom, which should be seriously heeded; that there is danger that these new stockholders may unite for common action, and those now responsible for management may awake some day to find their new partners have risen up and overthrown them. Honest management has but one thing to fear from this wider diffusion of ownership, and that is, action prompted by ignorance, rather than malice. This silent revolution is having its effect upon the industry as well as upon the public. It is

bringing to those charged with management a realization of new responsibilities and a broader concept of their service obligations.

It is obvious that our first and probably our paramount obligation to these new investors is to see to it that the securities purchased by them are fundamentally sound, that they represent real value and that the properties are so managed as to maintain their physical integrity and return to the investor a fair wage for his money. But our obligation does not end here; in fact it just begins. These new investors are partners. They should be admitted to full partnership, and accorded all of the rights and privileges of such relationship. We cannot accomplish this by simply mailing them once a year a statement showing the results of the year's operations and the then financial condition of the company. We must go much farther than this and, with pains and care, acquaint them with all the details of the business if we are ever to realize from these new relations an intelligent cooperative partnership.

Nor is this obligation limited merely to those who have directly invested in our business. It extends to those whose interests through the investment by banks and insurance companies and other institutions, though indirect, is just as real. In fact, so widespread is the financial interest of the whole public in the industry that we are led to the conclusion that our obligation to explain its problems and its fundamentals cannot be limited to any one class or group but must embrace the entire public, whether customers, partners or otherwise.

We are further strengthened in this conviction because of the peculiar handicap under which the industry functions—a handicap that is self-imposed, a handicap that arises from well-doing and increases with the quality of the service we render. What I mean is this: So well have the electric light and power companies of this country met the public need, so quietly yet so efficiently have they fitted into the demands of our social and industrial life, that Mr. Average Man gives but little heed to their existence; he accepts their services as naturally as the air he breathes, with little if any thought of what has been done to make these services possible. The reason for this indifferent attitude is because we have not taken the time or the pains to explain these things to him.

Now, I would not have you think that the industry has pur-

posely withheld this information from the public. We have been so busy in developing our business, in striving to meet the demands for service, that we have overlooked what to us seems now the perfectly obvious fact that the public knows little or nothing of the business in which we are engaged and that it is fundamentally different from the ordinary private enterprise. But a small portion of the public understands what public regulation means to our industry; very few know that the profit which we derive from our business, if profit it may be termed at all, is limited to a fair return on the property devoted to the public service; that because of this limitation, no new money for plant expansion can be secured from the rates charged for our services. Very few know that while the average merchant turns his capital over from four to six times a year, our turnover is about once in four or five years, and that for every dollar of new business secured we must provide five dollars of new money.

These are but a few of the many things which we must make clear to the public if we are ever to receive from them that measure of approval and trust which we believe is our rightful due. The industry is alive to the responsibilities arising out of these new relations; it welcomes the challenge which they bring. The National Electric Light Association is an organization comprised of electric light and power companies representing approximately ninety per cent of the money invested in the industry. Through this Association, these companies are working together for all that pertains to the advancement of the art and the improvement of the services rendered. One of its most important committees is the Public Relations Section. This Section is actively and aggressively dealing with problems arising from these new relations. Its title clearly indicates the purpose underlying all of its activities. Public relations are after all but human relations, and it is through the deepening and broadening of these human relations, especially those arising out of this wider ownership, that there will come, we believe, a better understanding and through that better understanding we shall reach our ultimate goal, mutual confidence grounded in mutual understanding.

The industry has nothing to hide. The story of its accomplishments is one of the romances of the twentieth century. It has a service record of which it is justly proud. It proposes

to utilize every means at its command to acquaint the public with all the phases of the business and to impress upon it the mutuality of interest. It is determined, in so far as it is able, that the people shall have that fair chance of which President Coolidge has spoken, to the end that in all their relations with our industry the people may deal with us wisely and justly because possessed of the requisite information for the exercise of intelligent action and sound judgment.

[500]

COOPERATING WITH COMPETITORS

DONALD R. RICHBERG
Counsel for the Railway Unions
Special Counsel for the City of Chicago in Public Utility Litigation
Former Master in Chancery, Illinois Circuit Court, Cook County

THE pleasure of addressing this audience upon the topic of the evening deserves something more than formal expression. After a day devoted to hard-headed consideration of instructive facts, the program for the evening was evidently designed to give free play to the imagination. The topic itself seems to have been chosen in a playful spirit. It is assumed that there is a "new proprietorship" developing and the speakers are invited to discuss "its effects." The word "proprietorship" suggests that, as the sale of ownership shares to customers and employees progresses, there will develop a customer and employee control of management. The vision arises of a day when managers, customers, and employees will fight all their battles across the mahogany directors' table, a day when regulatory commissions and labor conciliators will be only unhappy memories. It may have been the pleasing thought of the program committee that the distinguished Secretary of Commerce would prophesy cheerfully the early elimination of public service commissioners and of lawyers for consumers and workers, and that Chairman Prendergast and I would gracefully acquiesce in this proven futility of our life labors.

Painful as it is to precipitate strife and contention among those hopeful of postprandial contentment, I must dissent from any opinion that a new proprietorship is developing which will transform the conflicting interests of seller and purchaser, or of employer and employee, into the common interests of genuine cooperators.

Perhaps I may make clear my point of view by a parable.

Once upon a time there was a noble and wise man who owned a gas plant. At least once a year the gas consumers asked for a reduction in gas rates. At least once a year the gas workers asked for an increase in wages. Often the good man would

say to his good but expensive wife: "I wish Henry Ford had never been born, so that people wouldn't think that a man could raise wages and reduce prices and still make money. These customers and employees of mine seem to think that earning a dividend is stealing their money. They'd think differently if they owned some gas stock."

One day the good wife of the good gas plant owner remarked, with that sweet simplicity which is so charming, although sometimes also so irritating, in one's helpmeet: "John, why don't you give the consumers some stock instead of lower rates, and give the employees some stock instead of higher wages? You sometimes give the stockholders more stock instead of dividends. You have so much stock that never cost you anything you could afford to give some more of it away."

Of course the good business man pointed out to his wife the absurdity of her proposal, but, after squelching her, he decided that, properly modified, her idea might be of use. Some months later the gas plant owner began to sell stock to his consumers on easy terms, adding the deferred payments in small installments to the monthly gas bills. Also he began selling stock to his employees on easy terms, deducting the deferred payments in small installments from their pay checks.

One evening a few years later the gas plant owner came to his dinner table rubbing his hands with glee. "I've got them fighting each other, Mary," he chuckled. "My stock-selling plan is a great success. Whenever the consumers want lower rates, my consumer-stockholders and all my employees create public sentiment against lower rates. Whenever the employees want higher wages, my employee-stockholders and all my consumers create public sentiment against higher wages. It's working splendidly. Instead of everybody fighting me, everybody is fighting everybody else. I'm just a little peacemaker. Blessed is the peacemaker!"

"Isn't that lovely," said his good wife. "I suppose when the consumers and the employees own all the stock, you won't have any troubles at all."

"Now, isn't that just like a woman", snorted the gas plant owner. "The secret of my success is in not letting any group with common interests own too much stock. If the consumers controlled the company, I'd be just their hired man employed to keep down the wages of the other employees. If

the workers controlled the company, I'd be just their hired man employed to keep up the price of gas. But as long as I control the company, I can play one of my competitors off against another and win from both of them. Business, my dear, is just competition; and to succeed you must always have some advantage over your competitors. One advantage of this popular ownership plan of mine is that I divide my competitors. I have consumers and consumer-owners fighting each other. I have employees and employee-owners fighting each other. Then I have consumers fighting employees. The opposition to me is divided and sub-divided. 'Divide and conquer,' is the first law of battle; and that's my motto."

"My Napoleon," murmured the good wife Mary.

That is the end of my parable; perhaps not a satisfying end to the careful student of human affairs, but one which would be satisfying, I am sure, to most of the patrons of the movies, those uncounted creators of that great force before which all must bow—public opinion. A movie audience knows that there is a certain low instinct in mankind—low and fundamental—called the competitive instinct. This instinct causes the average person to be skeptical, or even derisive, regarding all efforts to substitute cooperation for competition as the motive power of industry.

Some of us super-average or sub-average persons may believe that in some remote day all swords will be beaten into ploughshares and all men will work for the common good instead of for individual profit—and yet hesitate to put forth programs for the immediate end of the competitive struggle in industry. Even militant socialists do not present such proposals. The most vigorous program of today which may be denounced as "socialistic"—or more heatedly as "bolshevistic"—calls apparently for a new competition between new groupings of society.

Therefore one would be a reckless dreamer indeed who would assume that the purpose of those now encouraging an increase in the number of owners of industrial enterprises, is to eliminate competition and to promote cooperation between seller and purchaser or between employer and employee. Certainly if such were the purpose, it would be clear that either consumer-ownership or employee-ownership would be the goal, but not a conglomeration of investor-consumer-employee ownership.

The end of an industrial enterprise is the production of goods or service which someone must buy. The customer must compete with the producer as long as the competitive instinct rules in human affairs. Except in a cooperative enterprise, the customer-producer is what the student of mythology called his sweetheart: "a two-faced Jane." I might even suggest that the customer-producer is a myth. The ordinary mortal is interested either in a high selling price or in a low buying price. He is primarily a purchaser or a seller. I doubt if he can be equally both, even in a cooperative association. Consider the attitude of a consumer who holds a few shares in a public utility corporation from which he buys service. So long as his saving from lower rates will be greater than his profit from higher dividends, he is simply trying to ride two horses going in opposite directions. Any circus rider of moderate intelligence can prove that this is an unwise procedure.

An employee who becomes a fractional employer is attempting the same embarrasing acrobatic feat. Yet there is a difference in the effect of encouraging customer-ownership and the effect of encouraging employee-ownership. The business operator must make his profits from his customers. He need not make his profits from his employees. An employer and his employee may cooperate in making profits out of customers.

Much of the competition between employer and employee might well be eliminated from the internal operations of every business, even in a society ruled by the competitive instinct. The competition between seller and purchaser cannot be eliminated from the external operations of any business so long as "competition is the life of trade."

It would be foolish to credit those who are now encouraging customer-ownership with any desire to bring about a cooperative society, with any desire to substitute a socialistic program of business-for-service for the prevailing individualistic program of business-for-profit. These sturdy captains of industry preach individualism six days a week and abhor socialism so devoutly that they prefer to plough the fields with golf clubs rather than to hear socialism preached on Sunday. Surely these far-sighted rulers of commerce, when they encourage customer-ownership, have no intention to prepare the way for the eventuality of a socialistic, cooperative common-

wealth. I am sure that they will agree with me in my conviction that many centuries of evolutionary growth must precede any such reorganization of society; and that hastening evolution is not the object of practical business men.

Therefore we should all agree that the sole intended effect of increasing customer-ownership is a very helpful weakening of the competitive power of the purchaser in his perennial contest with the seller. To persuade one's customer to buy one's stock is as clever and neat an accomplishment as it would be to persuade a marathon racer to carry along refreshments for his competitor.

The increasing amount of employee-ownership may be viewed in another light. The same shrewd policy may dictate its encouragement and yet the results may be far different. Cooperation between employer and employee is highly desirable and quite consistent with the competitive instinct. The hostile owner of a business might be easily and profitably eliminated. The customer is an indispensable antagonist of the business operator. The organizers and directors of great modern enterprises are seldom the principal owners. They are usually part owners and their personal interest is always allied with the ownership interest. This interest is essentially hostile to the interest of the employees. The margin of the owner's profit usually depends on the size of the payroll. Thereby there exists an internal competition which is often fiercer than the external competition between the seller and the purchaser of the product. The enormous waste of time and money in every modern enterprise through this internal competition—this civil warfare—challenges the statesmanship of business. When one contemplates the potential economies of production, the potential increases in quality and quantity, which would be possible if labor disputes could be eliminated, it seems as though "business efficiency" were a phrase of irony.

We observe on every hand strenuous efforts being made to solve this problem. We see hard-mouthed men bitterly striving to bring about a military discipline and a servile dependence among the workers, honestly believing that only by such methods can a group of ordinary, irresponsible human beings be converted into an extraordinarily responsive and responsible industrial machine. We see loose-mouthed men des-

cending to briberies and deceits to control a disorganized mass of workers. We see patient, kindly men working against persistent discouragements, seeking to cultivate a company spirit, a unity of purpose among a thousand individualists who seem to be inspired intermittently by the spirit of 1776 and the spirit once aged in the wood.

The hard-mouthed men, the loose-mouthed men, the patient, kindly men, are all engaged in the same hopeless task of reconciling the irreconcilable. They are all employed to get as much profit for the owners of property as they can out of the labor of those who make the property productive. The wages and conditions of labor cannot be stabilized. The competitive spirit of the free worker, which makes him efficient, will also make him ever dissatisfied with less than a maximum wage. And who shall judge, and how shall he judge, what is a maximum wage? Thus we are assured that so long as money hires labor, competition between employer and employee will dominate in their relations, and cooperation will be a secondary consideration.

The Supreme Court of Michigan expressed the law and the gospel with blunt honesty in the famous litigation between Henry Ford and the Dodge Brothers:

> A business corporation is organized and carried on primarily for the benefit of the stockholders. . . . The discretion of the directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among stockholders in order to devote them to other purposes.

If, therefore, employees through stock ownership are to obtain the power to select some of the directors of a corporation, it will be the legal duty of such labor directors to join with investor directors and consumer directors to oppose any increase in wages not compelled by the competitive power of the employees—because all unnecessary wage increases would reduce the profits of the stockholders. Of course if the workers themselves were the only stockholders and their respective interests in dividends exactly equaled their interest in wages, then the ownership interest would no longer compete with the labor interest. If labor organized a business corporation and issued labor shares, as the means of selecting managers and controlling operations, then money might be hired for a stable

wage. Money, being a thing, can be hired like other things and used without creating competition. Thus a daily competitive struggle with human beings over terms and conditions of hiring could be eliminated. Money in bondage is contented and efficient. Human beings are not. The slave bond is a better servant than the bond slave.

It is entirely possible that an increase in employee ownership may educate the workers to an appreciation of the desirability and the responsibility of controlling the business enterprises upon which their livelihood depends. It is certain, however, that those representing and profiting by the present money control of business are not encouraging employee investment as a painless method of substituting eventually a labor control for the present money control.

Many of our great business operators who are now encouraging employee ownership are, at the same time, refusing to recognize labor-union officials who have been authorized to represent their employees. But an officially blind operator might be seriously embarrassed if an unrecognizable labor leader should appear at the directors' table possessed of legal authority to compel recognition. So we may assume that employee ownership is not to be encouraged to the point of any possible exercise of proprietorship by employees.

From the considerations which have been briefly sketched, I am led to the conclusion that, whereas under the older proprietorship it seemed advisable to control at least one-third of the stock of a corporation in order to control the corporate business, now under the new proprietorship, by having a large number of consumer and employee stockholders, it may be possible to control the corporate business through actual control of only one-fourth or one-fifth of the voting stock. Furthermore, whereas under the older proprietorship a business operator was forced to compete unaided with both customers and employees, now under the new proprietorship, the business operator may obtain aid alternately from customers and employees in his competitions with each group and may obtain the constant aid of internal competitions which he may encourage within each group of his competitors. In a word, the new proprietorship seems to be an improvement in the mechanism of minority control, which is the essential device for making a fortune out of any large enterprise.

As a byproduct of the new proprietorship, some consumers and employees are being educated regarding cooperation and competition and concerning the desirability of getting your competitor to cooperate with you in your efforts to defeat his competition. It is reasonable to anticipate that in due time this education will bear fruit—not apples of discord, let us hope, but jocund grapes that will "life's leaden metal into gold transmute."

PUBLIC REGULATION AND THE NEW PROPRIETORSHIP

WILLIAM A. PRENDERGAST
Chairman, Public Service Commission of the State of New York
Former Comptroller of the City of New York

THE "New Proprietorship", or customer and employee ownership, has within a comparatively few years become one of the most interesting facts in the industrial and financial life of the country. Its development has been swift and its success thus far, amazing. Does it stand alone as an evidence of the virility and foresight of the American people, or is it anything more than a part of the great industrial movement which has been proceeding with steady and harmonious progress since the Civil War? When I speak of the "harmonious progress" of the industrial movement, I do not mean that the evolution of trade and industry has always been characterized by peace and amity but that the movement has adjusted itself in an orderly way to the general needs of the country and the requirements of the times. So that changes have taken place without serious disturbances, or derangements to the economic security of the nation.

While it has seemed at times that the adoption of new ideas might create a revolution in our industrial relations, time and patience and good temper have wrought these new ideas into existing systems with little apparent friction. This has been the case in respect to the trade-union movement, the banking question, problems of social welfare, government regulation of corporate activities, and the conservation of our natural resources. No one of these changes has reached the final stage of perfected usefulness. Many are still in the experimental state. We are still studying, testing and building upon them. This is true and will no doubt continue to be true of the "New Proprietorship" for many years to come. We are engaged in sounding its efficacy as an economic principle, and endeavoring to derive from it all the benefits and advantages possible. We approach the plan therefore not as a finality but as a beneficent advance in the customs of the people.

In its essence the "New Proprietorship" is nothing more than another demonstration of the acquisitive tendency of the race. To possess and to enjoy has been one of the leading strains of all peoples, primitive and modern. The difficulty in past times has been that a relatively few possessed much, and the many, very little One of the greatest struggles of the race has been to produce a greater equality of possessions. In this struggle the most potent influence has been that of labor. When labor has demanded a larger share in the profits of industry it has only been giving utterance to a demand that is as old as the ages. The natural consequence of labor's efforts has been that the principle for which it has been contending —sometimes single-handed—has reached the consciousness of people in general. We have thus seen a broadening of the belief in a greater division of authority and gains, and this has found expression in the "New Proprietorship" movement.

The genius of the American people is finding a solution—slow and moderate though it be—of the problems of the immemorial battle between capital and consumer. To their honor be it said, they are solving this problem without resort to revolutionary remedies, the impairment of constitutional safeguards, or the unjustified alteration of our governmental system. We are accomplishing the necessary changes without rancor, or estrangement of the interests which constitute America; we are seeking the common good with an united and patriotic purpose. We have passed beyond the stage where a simple increase in wages is satisfactory to the men and women who make up the army of American industrialists. Too often, wages have been increased under the pressure of the strike, disastrous to both sides, or the fear that wage earners are getting restless, or in anticipation of the disclosure of too large profits. It is unfortunate that in the past, increased rewards to labor were bestowed more in the nature of a dole than as a rightful distribution of an inherent interest. Again, wages subject to the vicissitudes of trade are uncertain and fluctuating. Some better method had to be devised. It has been found I confidently believe in the outstanding features of the "employee and consumer interest" in the success of industry to-day.

This interest is a partner in business whether that partnership be evidenced only by a share of preferred or common

stock. It has a place in the sun such as it never occupied before. It has a position of vantage which it heretofore lacked. Having shown the capacity to make investments, the employees and consumers will very soon learn to make the necessary study of the results of the business in which their investments are made and the very fact of scrutiny will be a protection to them and insure honorable treatment in the matter of wages and profits paid. This they can do in respect to private business, and in publicly regulated concerns they have the further protection of the agencies specially appointed for that purpose.

It would be futile to deny the energizing effect of ownership. It furnishes the incentive to effort and accomplishment which is otherwise almost entirely absent. It is equally unbelievable that the interest which ownership carries with it, will not lead to better understandings and cooperation. It will give to labor a stronger position than it has ever had before. This position labor will be too shrewd to use except in an effort to promote the good of the industry as well as its own. It is too early to forecast the result to labor, or prophesy to what extent it will help to ameliorate the fundamental antagonisms that have so far disturbed the relations of labor and capital. Those antagonisms must be susceptible to intelligent and humane treatment. Some advance has already been made. To the extent that the "New Proprietorship" will aid in further progress, we should welcome and utilize it. If it can be made an instrument in finding a better era, let us encourage the effort to discover it. To reject the opportunity to use such an instrument would be a fatal mistake. We are concerned with the removal of economic disputes and should approach the problem with dispassionate zeal.

A greater desire on the part of people generally to accumulate savings at reasonably large rates of interest, and the further desire to have a greater measure of interest and direction in something outside their own family affairs and the handling of their own particular work in life has brought them inevitably to the investment in the securities of well known industrial and public utility concerns. On the other hand the necessity for securing increased capital and depending for their supply of it upon some other reservoir than the usual banking facilities has moved the industries and utilities to seek this capital from the smaller investor. In this way two

legitimate forces have met, and in plain words, have pooled their interests.

It is no doubt true that the Liberty Bond sales have had a great influence in inducing the small investor to place his savings in some other security than a savings-bank deposit. He has discovered that it is a duty to make not only a patriotic investment, but an investment that will promote his own material well-being. There can be no doubt that another lesson of the Liberty Bond sales has impressed itself on the small investor, and that is, that as the many small subscriptions to Liberty Bonds contributed to the creation of vast sums of capital which were essential to the prosecution of the war, so other small subscriptions may be utilized just as effectively to sustain industry and promote the material and social progress of the community.

It must be remembered however, that the habit of customer ownership was being followed prior to the time when we entered the Great War. While I think the experiences of the war have given an impetus to this habit, there can be little doubt that the habit would have developed irrespective of the war.

We have now arrived at a period when people are using their opportunities for saving to a very great extent outside of the savings bank, and the building and loan association. The newer method is through investments in industrial and public utility enterprises. The growth of this "newer method" has been marvelous. Exact statistics are not available, but considering actual figures which are obtainable, there is no doubt that the number of investors of all kinds is at least 10,000,000, and a very comprehensive and commendable study of the subject leads to the conclusion that the figure may be as high as 14,000,000. Whether we take the higher or lower number, or something between them, here we have an army of investors large enough and strong enough to influence to a considerable degree the financial thought and policy of the nation.

When the people who possess this influence learn their real power, in what way will they exercise it? Or, in what way may they be induced to use it, under the guidance of skillful leadership? Will that leadership seek peace and goodwill, or, following the essentially acquisitive tendency in man, use

it to create a new feudalism, more beneficently endowed and directed in the beginning, but in the end raising new forms of oppression? That the situation has its dangers no one can deny. That under the broadening influences of twentieth-century thought and opportunity it should and will be used to establish an era of loftier purpose in the political and social condition of the people, I think we should confidently hope.

We should now ask, what does the "New Proprietorship" portend? We know that it is manifesting itself very emphatically in the investment of public utility securities, comprising the railroad, telephone, electric light and power, and gas industries. These are among the most important of the industries of the nation. They attract more attention, certainly from executive and legislative authorities than any other types of business. The principles of management, labor relations, community relations and financial policies followed by these industries have a great influence upon the general estimation and treatment of these different questions by industry generally. Will the fact of employee and customer ownership in these particular industries be used to secure undue advantages for them? To protect them unduly from just criticism? To aid them in counteracting the fair demands of the public generally for better service or lower rates? Under the now outworn and wholly undependable policy of trafficking for franchises and other concessions between the state and municipal authorities and the utilities there would be very grave danger that the public interest might be subordinated to the investing interest, but under the system of public regulation now in force in forty-two states, this danger if not entirely removed is certainly not a serious one.

This brings me to the consideration of a phase of this question which I believe (for no personal reasons) has had and will continue to have a large bearing upon this entire problem of the "New Proprietorship", and that is "Public Regulation."

Public Regulation received its definite introduction into our political system through the passage of the Interstate Commerce Act in 1887. It was not until 1906 that this national statute was given its vital power when the authority to fix rates was conferred upon it. In the year following, New York State and Wisconsin adopted regulatory measures and

since then most of the states have followed their example. The powers given to the state commissions are not in all cases the same, as the right to pass upon the issuance of securities for capital purposes is still withheld from a number of the commissions.

The system of state regulation has been in force for nearly seventeen years and there has been time in which to judge whether it has met public expectations. That the feeling towards it is one of universal approval could not be claimed. Such opposition as has been shown to it has usually proceeded either from those who have been disappointed because commissions have not given decisions which were pleasing to them, or from others, *usually politicians,* who have for their own special reasons sought to discredit the commission theory of regulation.

This much, however, may be said with justice of the trial—so far—of the regulatory idea. Under it, the quasi-judicial duties of the commissions have been performed in a way to stabilize the industries over which they have had jurisdiction and to secure in large measure a just relationship between them and the public.

The regulatory principle has had its severest test during the period since the close of the Great War, during which time, costs of labor, supplies and materials for construction purposes went to high levels heretofore unknown by this or the preceding generation. This has also been a period when the public has expected and exacted the highest type of service. To meet these conditions and at the same time withstand the opposition—mainly political—of those who were fighting a readjustment in rates, has been a stupendous task. It has been met by the commissions in the main with courage and judicial fidelity to the interests of the public and the utilities. The proof of this is that in practically every case where communities have sought a judicial review of rates fixed by commissions, these rates have been upheld by the courts. In nearly all cases where commissions have been reversed by the courts it has been on the ground that the rates fixed by them were *too low.*

It is rarely, if ever, that the judgment of a regulatory commission has been questioned in respect to an authorization made by it for the issuance of securities. It is too often over-

looked that this is one of the most important functions of the commissions. Bankers and others who either underwrite or directly purchase these securities have for a long time accepted the action of the commissions as a guarantee of the propriety of the issue. Many have sold them to their customers on the faith of the commission's action.

It has so happened that the time during which the "employee and customer ownership" idea has been assuming great strength, is the same period during which the regulatory commissions have been demonstrating their greatest usefulness. Is it not reasonable to believe that the confidence which the small investor has shown by his avidity to purchase the securities of the public service corporations is to a great extent based upon the same confidence which bankers have reposed in the work of public service commissions? Is it not fair to assume that this new dispensation "of the reign of the small investor" is a vindication of the regulatory principle?

That I have not been setting up a straw man for the favorite pastime of demolishing him could be shown by the citation of many practical examples, but I will quote this one:

The Philadelphia Rapid Transit Company has 10,000 employee shareholders or owners. It recently sought to secure an equal number of car-rider shareholders or owners. It offered them 60,000 shares of its preferred stock, averaging six shares each. Instead of this 13,000 car-riders, averaging five shares each, oversubscribed the $3,000,000 issue in six days.

Newpapers of Philadelphia attacked the sale. These attacks were answered by *The North American,* in part as follows:

> *The North American* has no sympathy and less patience with the criticism of the P. R. T. plan of selling its preferred stock issue of $3,000,000 to its car riders. The securities are high grade and pay a remunerative interest. They are offered to the car riders on a basis that makes them attractive to many persons who never had any knowledge of interest-bearing security until they were asked to buy Liberty Bonds during the war, and who have never bought any other kind of bond or share of stock.
>
> The objectors to the sale denounce it as a sop to the car riders, a plot to make them think that they are the proprietors of the transit system and thereby to allay their impatience with inadequacies and inconveniences and to abate their opposition to the recent temporary increase in fares, and to any other increases that may be in the offing either openly or in the guise of zoning systems or motorbus substitutes for surface trolleys.

This sounds rather silly to us. Getting the car riders to buy P. R. T. securities is in line with the most advanced thought in public service ownership. The wide distribution of such ownership is one of the most wholesome movements of recent years. Wise management in all kinds of utilities seeks a broad foundation among the people whom they serve.

It seems rather fatuous to think that the stock-selling plan could in any way weaken the public determination not to stand for another fare increase.

As we have said in the foregoing, the plan is in line with the best modern practice of distributing ownership of public utilities as widely as possible.

The general public may, I think, with good reason depend upon the regulatory authorities standing firmly against any encroachments upon its rights due to an unfair use of the power that might be wielded by the investors in utilities. The same principles which have been invoked to protect the public against political domination sought to be exercised by municipal governments, will be called upon in the future to protect that same public from any undue pressure from the holders of utilities securities. Where rates have been advanced because of increased costs, rates will be reduced when operating costs decline. There have been notable instances of this in the State of New York during the past few months, and, as conditions warrant, there will be more in the future.

The good effects of the "New Proprietorship" are many. It would hardly appear necessary to discuss them in detail. They are in brief: 1. A great means of saving. 2. Earning commercial interest. 3. Greater interest in the business on the part of employee owners of securities. 4. The promotion of thrift. 5. Effecting the accumulation of capital. 6. Enlarging the interest of the individual in business and human affairs. 7. Promoting better relations between the public and the corporations. 8. Broadening the field of ownership. 9. Developing a nation of self-reliant men and women.

In addition to these reasons I can see in this movement a greater probability of better understanding between labor and capital. A new order that will be based upon reason rather than upon strife. Labor has become a capitalist. A capitalist is after all only one who controls and diffuses capital. Labor through its banks is learning that capital has certain uses and, rightly used, a fairly definite earning power. That when you step beyond this you reach the realm of abuses. Labor is therefore qualifying itself to discuss with capital the

question of costs and revenues in capital's own language. There is only one language in which you can intelligently discuss costs and revenues, and that is the language of reason and facts. When labor and capital have arrived at this stage, reason must prevail and the forces of misunderstanding will be dissipated, or those who insist upon being wrong will have to go down to defeat. The interest of each side will be too great, too precious, to permit further strife, and reason will become master.

It must be anticipated that with an ever growing tendency in popular ownership there will arise a demand on the part of these shareholders for definite representation in the boards of directors of the corporations. Wise executives will welcome such a demand, in fact, they should not wait, but provide for it. Democratization of ownership carries with it democratization of responsibility and representation in that responsibility. Then will people come to understand better the functions of capital and with that understanding will disappear the distrust that capital has in the past provoked.

The "New Proprietorship" should be recognized as the latest potential phase in the ever-changing nature of our industrial society. That it means the passing of those giant characters who controlled corporations in order to protect and advance their own fortunes may be taken for granted. The changing order in their cases commenced when the regulatory principle was applied to our law, and a figure set beyond which their earnings would not be permitted to go. In place of these captains of a vanishing race of financiers, has come and will continue to come a band of able, alert, brilliant men, who will guide the corporations of to-day and of the future for the pride of scientific achievement, the opportunity of administrative prestige and the glory of service. They will be captains, not of wealth nor political power, but of that newer order, in which the principles of democracy will be carried to more progressive stages of industrial, social and political usefulness.

PROPERTY OWNERSHIP AS A SOCIAL FORCE[1]

WILLIAM L. RANSOM
Ex-Justice of the City Court of New York

IT is in itself a significant thing that an organization such as the Academy of Political Science, with its fine traditions of forty-five years of leadership in the discussion of public questions, has called now a National Conference on the fundamental topic of the ownership of the productive enterprises of the country. It is easy to say, and easy to see, that a considerable change has been quietly taking place in this respect, since the World War; but it is another thing to face squarely and fully the consequences of that change and to try to trace those tendencies to their final effects upon the fabric of American life.

Facts and figures such as have been presented here today by responsible leaders of thought and corporate action—men whose business it is to know and to analyze the facts—have seemed to forbid that this significant change should longer be omitted from serious and critical study. Any economic and corporate changes which tend to take the ownership of productive capital out of the hands of a few families and financial groups, restore that ownership to all sorts and conditions of men and women, and give them a stake in the progress and prosperity of industry, would seem to merit the most thoughtful consideration. For some time, as several of the speakers indicated this morning, this movement has needed to be visualized and emphasized by nationally-minded organizations such as this Academy, removed from the atmosphere of any propaganda based on the needs of particular industries, and closely studied for its ultimate effects.

If I may submit a personal opinion for your consideration, it is that a great deal of the discussion of this subject has oftentimes stopped short of its most significant and fundamental phase. That is perhaps to be expected even here, when

[1] Amplification of address as presiding officer at the Afternoon Session.

business men are asked to present, within an inadequate period of time, the detailed facts as to the changes which have been taking place in the ownership of the industries with which they are identified. Such supplementary discussion as the time allotment has permitted, seems to have gravitated rather naturally *to the direct effects of such a wider distribution of ownership upon the particular corporate enterprises themselves.*

At least to me, that does not seem the most important aspect of the subject. There has been a good deal of discussion as to the advisability of encouraging the employees of a corporation to invest in *its* stock and thereby acquire a share in the *ownership of the corporation which employs them.* That may be and is desirable and proper, up to a certain point; but it does not seem nearly as important to me as the encouraging of those employees *to invest in something substantial and safe* and thereby to acquire a share in the ownership of *some* productive enterprise or enterprises.

Looked at from the point of view of perfecting the relations between employer and employee, the purchase by the employee of stock in the corporation for which he works, does not seem to me to spell out nearly the whole story of modern industrial team-work. However desirable such an acquisition may be and is in most instances and up to a certain point, the fact remains that as to most industrial and railroad corporations, it would still be utterly unwise and impracticable to induce employees to invest any large part of their savings in the common stock of those companies. Even the largest and most stable public utilities have usually sold only the most superior grades of preferred stock to their employees. As a matter even of the effects upon the corporation itself, or even upon its employees in their relations with the corporation, their acquisition and ownership of some of the stock of the corporation they serve does not seem to be nearly as important and far-reaching as that those employees shall acquire some share in the ownership of several enterprises, often preferably including the one by which they are employed.

The Desirable Scope of Popular Ownership.

The thing of far-reaching consequence, I submit for your consideration, is the acquisition and ownership, by employees and by everyone else, so far as practicable, of *some property,*

where the return depends on the investment, the risks, the wisdom of management, the taxing and regulatory policies of government, and similar factors. *American labor traditionally knew the hazards and the responsibilities which go with investment and management. That consciousness needs to be restored and strengthened.* Such ownership needs not be related wholly to the particular corporation for which the employee works.

It has sometimes seemed to me that the executives of many of our larger corporations would do better if, instead of trying to sell to their employees exclusively or primarily the stock of their own corporations, they would endeavor, at least primarily, to encourage them to thrift and to investment in diversified securities of the safest character, even on a small scale. No exclusive or primary emphasis need be placed on the worker's buying the stock of the corporation he works for; the installment-payment system might well be made available for small-scale purchase of diversified and standard securities. The objective of "employee participation in ownership" might well, it seems to me, be a genuine sharing in the proprietorship of the industries of the country, and not merely the acquisition of a stock of uncertain earning-power, issued and sold by the corporation by which the worker is employed.[1]

So, too, as to "customer and small-investor ownership". The desirability that the patrons of a public utility shall be given an opportunity to purchase and own substantial quantities of its stocks and bonds, if they so desire, may be conceded. The extent of the effect of such an acquisition and ownership by customers, upon the corporate management and policies or upon the attitude of public opinion, may be vigorously debated, as has taken place here today. The important and most desirable thing, however, it seems to me, is that customers, employees, and other individuals comprising the general public, shall participate in the ownership of one or more corporate enterprises—not necessarily the one which supplies them with a local service of light, heat, power, communication, or transportation.

[1] *Cf.* "Every Worker a Capitalist," by David F. Houston, Ex-Secretary of the Treasury (*World's Work,* January, 1925); "Creating Good Will Between Capital and Labor" (*Magazine of Wall Street,* December 30, 1924).

SMALL-INVESTOR OWNERSHIP THE BASIC CONCEPT.

Small-investor ownership, therefore, seems to be the basic and important thing in America; consumer and employee ownership, and the wider distribution of the ownership of corporate securities,[1] are clearly desirable if viewed as steps and methods to a restoration of popular proprietorship, and if each small investor is encouraged to diversify his holdings and gain an owner's sense of interest in the conditions and risks affecting at least several of the industries of the country. The social effects of popular participation in ownership seem to me important, if related to the great rank and file of the people; but this participation loses its significance and fundamental importance if related primarily to methods of financing corporate requirements of new capital or even if related to its effects upon corporate management and policies, far-reaching as those effects may eventually become, under a democratic concept of property ownership and obligations.

DIFFERENT OBJECTIVES OF THE DIFFUSION OF OWNERSHIP.

Perhaps the following will make my meaning more clear: Analyzed and resolved along lines of its *immediate objectives,* this tendency which is generically called a movement for popular ownership of productive capital, appears really to consist of several movements or tendencies. They overlap each other to some extent; they may ultimately contribute to a common objective; but it may aid clear thinking on this subject if we keep in mind these contemporaneous and parallel lines of activity. Some of them, if separately considered and appraised, seem subject to objections and criticisms which would not lie against the movement as a whole. There is therefore a need for putting such criticisms and objections in their proper relationships.

Some of these contemporaneous activities which are said to be contributing to the popularization of industrial ownership may be pointed out as follows:

(1) The effort of "personnel" executives to reward, interest and hold employees, by inducing them to invest all or some of their savings in the preferred or common stock of the corporation which employs them;

[1] *Cf.* article on that subject by H. T. Warshow, *Quarterly Journal of Economics,* November, 1924.

(2) The effort of "public relations" executives to win and hold the good will, interest and patronage of their customers or patrons, by enabling them to purchase on attractive terms, and own and hold, some of the preferred stock of the enterprise, on such a basis as to give them a preferential participation in its net earnings;

(3) The effort of "financial" executives to obtain a part of their companies' financial requirements as to new capital, through the sale of stock to employees, customers and patrons, and thereby to reduce the amount of financing which has to be done through the bankers, particularly the amount of stock financing;

(4) The effort of various corporate executives to diversify and scatter widely the stock ownership of the larger companies, on the theory that such a diffusion of ownership makes for stability and promotes a far-flung good will; and

(5) The effort of some corporate executives and others to encourage employees, customers, patrons, and all citizens of moderate means, in their respective territories, to develop habits of thrift and saving and to acquire some share in the ownership of some of the productive enterprises of the country—not necessarily as employees or patrons of the particular corporation whose securities they buy.

It will be recognized that all five of these parallel efforts contribute to the diffusion or popularization of ownership. Only the fifth of these lines of endeavor seeks such a diffusion for the sake of its broad social effects. The first four contribute to and advance the broader objective, but do not themselves seek it. They each proceed along lines devoted primarily to the effects upon a particular corporation and the stability and prosperity of its business. In questioning the desirability or casting doubt upon the effectiveness of any of these four phases, it does not follow that a similar challenge may or should be directed against the fifth and fundamental objective—democracy in the ownership and control of industry.

The reasons for the foregoing observations may be briefly stated for your consideration:

Individual Ownership of Property Fundamental in American Life

In the pioneer days, America was a land of individual ownership and opportunity. Proprietorship, investment, management, risk and reward, were closely allied with the physical labor. The men who toiled shared all of these relationships and had the *balanced* judgment and point of view which comes best from such a combination of interests. The manufacturing enterprises were on a small scale, in small villages and cities, and were usually owned and controlled by the men who did the work in them. Each worker had a sense of sharing in the ownership of the enterprise he served, and this proprietary sense stimulated his determination to conserve what he owned and to add to his share in that ownership.

De Tocqueville on Property Ownership in America

When Alexis De Tocqueville came to this country and wrote his memorable impressions of *Democracy in America,* he was amazed by the prevalence and by the conserving consequences of popular proprietorship. He pointed out that:

> In America, the most democratic of nations, those complaints against property in general, which are so frequent in Europe, are never heard, because in America there are no paupers. *As everyone has property of his own to defend, everyone recognizes the principle upon which he holds it.*

The common opportunity to acquire property and share in ownership impressed him as one of the factors in quieting any destructive or subversive tendencies on the part of newcomers in America. Almost whimsically he wrote:

> Most of the European emigrants to the New World carry with them that wild love of independence and change which our calamities are so apt to produce. I sometimes met with Europeans in the United States, who had been obliged to leave their country on account of their political opinions. They all astonished me by the language they held, but one of them surprised me more than all the rest. As I was crossing one of the most remote districts of Pennsylvania, I was benighted, and obliged to beg for hospitality at the gate of a wealthy planter, who was a Frenchman by birth. He bade me sit down beside his fire, and we began to talk with that freedom which befits persons who meet in the backwoods, two thousand leagues from their native country. I was aware that my host had been a great leveller and an ardent demagogue forty years ago, and that his name was in history. I was therefore not a little surprised to hear him discuss the rights of

property as an economist or a land-owner might have done; he spoke of the necessary gradations which fortune establishes among men, of obedience to established laws, of the influence of good morals in commonwealths, and of the support which religious opinions give to order and to freedom; he even went so far as to quote the authority of our Saviour in support of one of his political opinions.

In a most philosophical manner, this keen-minded Frenchman analyzed the reasons why at that time the "men of democracies" such as America, were disinclined to favor drastic and destructive changes. "All revolutions," said he, "more or less threaten the tenure of property: but most of those who live in democratic countries are possessed of property; not only are they possessed of property, but they live in the condition where men set the greatest store upon their property. . . . The men who have a competency, alike removed from opulence and from penury, attach an enormous value to their possessions. . . . Hence, in democratic communities, the majority of the people do not clearly see what they have to gain by a revolution, but they continually and in a thousand ways feel that they might lose by one . . . . In no country in the world is the love of property more active and more anxious than in the United States; nowhere does the majority display less inclination for those principles which threaten to alter, in whatever manner, the laws of property."

Such were the conditions typical of the time when De Tocqueville wrote. But later came an era when small proprietorship broke down. Large enterprises crushed the small. Ownership and management passed to rich families or groups, and then to corporations owned by such families or groups. The small shop and factory in the village disappeared; large corporate units brought a nationalization of the scope and size of industry. With the shoemaker and carpenter shop and blacksmith and grist-mill, went out the saving sense of individual proprietorship and the workers' and customers' share in the ownership of the enterprises. The toilers no longer owned; risk, investment, management, and physical toil were widely separated; the workers were rarely property owners, and practically never had a real stake in the business they served. They became *wage*-workers, and their compensation and participation were measured only by the contents of their pay envelopes.

Now is said to have come an economic revolution—a great shift in the forms and substance of ownership. Workers own and operate various services for themselves; workers have a share in the ownership of many enterprises they serve; employees and patrons are again becoming proprietors. The rank and file of men and women are indubitably becoming to a greater extent the real owners of the largest corporate projects, directly through purchase of stocks, bonds, and indirectly through insurance policies and through deposits reinvested by savings banks. Through thrift and forms of investment, there is a more widespread dissemination of ownership; accumulation of productive property, at least in a small way, is identified again with the labor which operates it; and it is said that America is becoming again a nation of small investors and property-owners.

If this is so, I submit that therein lies the paramount importance of the facts which the Academy is discussing today. But this does not seem to me to be a transition which may be taken for granted, and some easy interpretation of its ultimate effects acquiesced in. Is it a final step forward in this field, or what next? Has it yet brought a reality and substance of proprietorship or only, as charged, a semblance and a shadow? Is it a fleeting and futile effort to "turn back the clock" and "breathe new life temporarily into a decadent and expiring capitalism," or is it truly an important and far-reaching step in the transition to the industrial democracy of tomorrow? If the charge that this change has as yet no real substance is to be deemed to any extent well founded, what further steps must be taken, in industrial leadership and corporate systems, to accomplish the reality of a restored popular proprietorship in America?

We may not be able to resolve and answer these and other vital queries in this introductory conference, but today's discussions may rivet attention on the subject and pave the way for further and constructive consideration.

Twenty Years of Progress Toward Restoring Popular Ownership

The most dependable survey of the extent of a social change may often be obtained by contrasting a present discussion of the pertinent facts with an authoritative discussion at some

earlier time. By a coincidence almost curious, the most eloquent and incisive presentation that has ever been made, as to the need for restoring to the rank and file of the American people a share in the ownership of productive enterprises, was published twenty years ago this month, in *McClure's Magazine.* If you wish to see how far America has travelled during this score of years, read carefully that stirring arraignment of the opposite tendencies then in full sway, and then compare the tenor and temper of that appeal with the discussion which has taken place here today.

The gifted author of that appeal for popular ownership of private property was the Honorable Peter S. Grosscup of Chicago, a Judge of the United States Circuit Court of Appeals. Judge Grosscup was a statesman as well as a judge; all of his public utterances were "marked, not only with a breadth of knowledge of the law, but by a keen sensitiveness to all of the immediate problems and conditions of American life."

Judge Grosscup perceived that the corporation had been the agency which had crushed individual ownership, in its earlier forms; and he saw likewise that, sooner or later, the statesmen of American industry and finance must make the corporation the means of restoring "peopleized industry." So under the title of "How To Save the Corporation," he wrote, in *McClure's,* in March of 1905. First he outlined the broad patriotic and spiritual aspects of what seemed to him then the supreme problem:

> If, by national prosperity, we mean what the American people, in the mass, are achieving, in the way of increased material output, and power of productivity; if, by national prosperity, we mean that in the mass, our people are richer than in any previous period; that our territory and dominion have been pushed forward, and our influence in the councils of the nations established, as never before; if these things, relating to the people as a whole, constitute national prosperity, then, as never before, we are in a time of the very greatest prosperity. But is there not with a nation, as with an individual, apart from the mere outward life, an inner spirit or soul? *And what shall it profit our country if it gain the world, and lose its soul?*
>
> *Loss of Individual Hope*
>
> The soul of republican America is not in our ambition, as a people, to be great commercially and politically; nor our ambition for increased national territory, national power, or national wealth. The soul of republican America, as a civil government ordained to promote the welfare and happi-

ness of its people, is individual opportunity—the opportunity and encouragement given to each individual to build up, by his own effort, and for himself and those dependent upon him, some measure of dominion and independence all his own. In that one phrase—measurable individual independence, and the opportunity to measurably exercise individual dominion—is comprised the civil history of the Anglo-Saxon race. In that one phrase is expressed the dominant instinct of the race. Our commercial greatness as a people is not in danger of being lost; nor is our increasing national power and prosperity. *The loss that republican America now confronts is the loss of individual hope and prospect*—the suppression of the instinct that heretofore coming into the American boy's first grasp of the idea of individual career, and stimulating him ever afterwards, has made us a nation of individually independent and prosperous people. We are, I believe, in the first stage of a sweep of events, that unless turned to a purpose widely different from that now served, will carry us, eventually, to a time when the acquisition of property, by the individuals who constitute the bulk of our people, will cease to be one of the opening and controlling purposes of their lives. This means that, as a republican political institution, America will have lost the spirit which alone promises it life. *It means social and, eventually, political revolution.*

The thing at which I point is no apparition. It is an approaching fact —a fact that the people of this country have already intuitively discerned. On what theory, other than that of the existence of deep-seated popular apprehension, can be explained the widespread popular movement that brought about the Sherman Anti-Trust Act; the anti-trust acts of the several states; the movements against large corporations, based on no better reason, in most instances, than that the corporations were large; the disposition manifest in every quarter, not to accept, but to combat, the rising forms of modern industrial activity? This popular apprehension does not rise solely from anxiety about prices. It grows out of the intuitive perception that, somewhere, something is wrong—that in the face of the future there is a disturbing, even sinister look. To test this intuition by the facts—to turn the feeling, so far as I can, into a correct perception of the facts—is one of the purposes of this article.

Let me preface it by saying that against corporations, as corporations, I have no enmity. Modern civilization requires that capital shall be wielded in large masses. The corporation is civilization's method of wielding capital in large masses. On that account the corporation is here to stay. The big corporation is here to stay. The only institution in sight to supplant it is state socialism; and state socialism is revolution accomplished.

"Private Property" the Foundation of Civilization

The distinguished jurist saw clearly that the fundamental basis of the *corporation* was private property and that the fundamental basis of American civilization must be a conserving sense of individual sharing in the ownership of private property. From these observations, he readily reached the

conclusion that, to him, the supreme task in America was to make the corporation *an instrumentality for restoring popular ownership, instead of continuing it as a device for destroying popular ownership.*

His description of the part which private property and popular proprietorship play in conserving government, civilization, and all human happiness, was one of the most eloquent ever written:

The fundamental basis of the corporation is the institution of private property and the guaranties our government gives to private property. Now, it so happens that the fundamental basis of the thing I have called measurable individual independence, and the opportunity to measurably exercise individual dominion, is also this institution of private property.

Around the institution of private property, therefore, more distinctively than anywhere else, center those changes, in our social and national life, that have been brought about by the appearance of the corporation as the great industrial, modern agent, and that the corporation is destined, I believe, to still more radically bring about. What, then, is this institution of private property, and what is the distinctive transformation it is undergoing as the result of corporate dominion?

In the beginning the Creator so conditioned mankind, that always underneath him would be the earth; always about him the air; always above him the sky. On this, as a dowry, He started us. In the earth He placed the seed, and the powers of motherhood that transform the seed into the full ear. In the bowels of the earth He stored the minerals. In the upper air He leashed the lightnings. And in the earth and air He left them all to wait—to wait for mankind to put forth *its* hands.

The seeds flowered and bore fruit; but in primitive inadequacy. In course of time mankind discovered that, by intelligence and industry, the flower could be beautified and the fruits sweetened. The minerals were alive, but with energies imprisoned. In course of time mankind found the key to the prison door; and the prisoners, liberated, have built the material structures of civilization. The lightnings glowed and zizagged, calling out to us unceasingly, at times startling us, determined, like sentient beings, that their capacity for usefulness should not be overlooked.

In course of time the yoke was found that, adding these energies of the air to the forces of earth, brighten and strengthen our possession of the earth. The distance thus traveled, from primitive man to the man of today, has been a long one. But every mile was made under the spur, and governed by the rein, of private property. It was the institution of private property that, more than any other secular agency, brought us to civilization; and on this institution, as on a rock, the civilization of the world, and the world's republican institutions must continue to rest.

Judge Grosscup Saw the Foundations Shifting in 1905

At the time he wrote, Judge Grosscup perceived that "the proprietorship of the private property of the country, by the bulk of the people of the country," was then radically narrowing. To arrest and reverse this alarming tendency, and to broaden again the basic ownership, seemed to him the paramount task and patriotic duty of those at the helm in corporate enterprises.

How far this has been achieved in twenty years, is attested by the figures which have been developed here today, and by the very holding of this National Conference as to the newer forms and social consequences of this changed proprietorship; but Judge Grosscup's impressive warning has a present significance:

> Now, it is just this institution of private property that is undergoing, at this time, a strain never put on it before. The weight producing the strain is the corporation. Not because the corporation, in essence, is retrogressive and unrepublican; but because, in fact, it is unrepublican, and for that reason retrogressive also. Not because the corporation is big and growing bigger; but because, in all this growth of superstructure, the base is narrowing—*the proprietorship of the private property of the country, by the bulk of the people of the country, is radically narrowing.*
>
> A generation ago, the artisans of the country lived in the country towns. In the country towns were made the shoes we wore, the wagons and carriages, the stoves, the saddlery we used—all the appliances of life; and over the door of each shop hung the sign of the proprietor within. A generation ago, the farm work was done by men living on the farms.
>
> All this is now changed. Nearly one-half of the population of the United States—twelve million active workers, supporting as dependents twenty-four millions more—are now connected with the mechanical trades. The men who, in the time of which I have just spoken, with their own hands did the planting and cultivating and harvesting, are now in the manufacturing centers, making the machines that plant and cultivate and harvest. The artisan proprietors in the towns have been succeeded by artisan employees in the great factories. The whole scene of industrial activity has been shifted from town and country to the cities; from the numerous small dominions exercised by individuals, to colossal corporate dominions.
>
> The extent of this shift is told in the census figures. In 1900, according to the census of that year, the whole value of all the farms, the farming utensils, horses, reapers and binders, plows and farm products on hand unsold—that which on a single day would have constituted an inventory of all the agricultural interests from Maine to California—amounted to between eighteen and nineteen billions of dollars; while the capital invested in corporations, including railroads, factories of all kinds, and their products on

hand unsold, amounted to twenty-two billions of dollars. Thus corporate dominion has, within thirty years, beginning with almost nothing, outstripped agricultural ownership by more than three billions of dollars; and, barring city real estate, comprises now nearly one-half of the whole wealth of the country.

In the swing of the industrial system, the corporation has come to be the gravitating force that holds the activities in their orbits. Is it much wonder that, in the eyes of those who look upon the corporation as an interloper, it has come to be regarded as a usurper also—the usurper of what the labor of individual men has created; or, that in the eyes of those who, with clearer vision, look upon it as an indispensable phase of industrial evolution, *the way in which the corporation shall hereafter be organized, and the bounds given to its dominion, are coming to be the paramount political problems of our time?*

The Corporation Was Driving the People Out of Proprietorship

In 1905, Judge Grosscup's keen analysis of the situation was that the rise of the corporation was being used to deprive the people of any sense of owning property and was in fact excluding them from such proprietorship. Instead of acquiring any recognizable share in corporate ownership, they were turning their money over to banks, insurance companies, and other financial institutions, which paid them interest or gave them safeguards in the event of disability or death, but instilled in the people no sense of participation in the ownership of the nation's industries.

Several speakers today have revealed how radical has been the change in the policy of the savings banks and insurance companies since 1905. Through their deposits in the savings banks and the insurance reserves accumulated for the protection of the policyholders, great numbers of people are not only sharing substantially in the ownership of the productive enterprises of America, but are being given a realizing sense that *they,* and not the banks or insurance companies, are the real owners of these properties and projects and have the greatest stake in their prosperity, stability and progress.

Only a considerable beginning has so far been made by some of the financial institutions, along this line, but there has been progress; and the tenor of Judge Grosscup's criticisms and fears in 1905 is an interesting reflection of the change which twenty years have wrought.

In pointing out the failure, up to that time, to use the cor-

poration as a means of "repeoplizeing industry" and the failure to utilize popular savings as a means of inculcating any sense of responsible ownership, Judge Grosscup said:

Banks and Bonds Starve Small Enterprises

Now, the shift in dominion over private property, from the individual of a generation or so ago, to the corporation of today, would have little significance comparatively, if the corporation were only this age's new way of unifying, massing, individual ownerships—leaving the people of the country, generally, though under this new form, the ultimate real owners. But such, unhappily, is not the case. The effect of the corporation, under the prevailing policy of the free, go-as-you-please method of organization and management, has been to drive the bulk of our people, other than farmers, out of property ownership; and, if allowed to go on as at present, it will keep them out. When the individual proprietor of the past sells out his business to the corporation, he does not reinvest his capital in his old line of business. He puts it in the bank, or in some bond. When the workman has got together some savings, he does not become a proprietor or part proprietor. He spends it, or puts it in the bank. To men like these no kind of active investment, practically considered, is left open. The industries are now dominated by the corporation, and proprietorship in the corporation has come to be for those only who are experienced in corporate ways, or who are willing to take a chance at the corporate wheel. And thus it happens, that just at this moment, we are in the midst of a sweep of events, that unless arrested and turned to a different account, will transform this country from a nation whose property is within the proprietorship of the people at large, to a nation whose industrial property, so far as active proprietorship goes, will be largely in the hands of a few skilled or fortunate so-called captains of industry, and their lieutenants.

Let me set out some of the proofs of the case I have thus undertaken. I might appeal, and with convincing success, too, to the memory of my readers. But I do not rest my case there. I call as witness the figures gathered from the Treasury Department of the United States, and distributed as a part of its official publications. These figures show that the deposits in the banks of the United States in 1880—national, state, and savings—amounted to a little over two billion and a quarter dollars. The same deposits, in 1904, had grown to about eleven billions. In these figures are included no re-deposits. The figures represent the actual bank credits for the years named. Now bank credits, outside the sums that constitute the mere fluid working capital of the country, represent the capital that one class of people are withholding or withdrawing from other forms of investment, that another class of people may borrow and utilize it to push forward their own investments. Would we know who are the people who are withholding and withdrawing from other forms of investment the capital thus deposited, we must inquire who are the depositors; and would we know whether these people are withholding and withdrawing from other investments in a ratio greatly disproportionate to the growth of the general property, we must compare the ratio of deposits with the general growth of property.

Hoards of the Working People

Now, in the main, the depositors in our banks and savings societies are not people whom we call the rich. The deposits are gathered largely from the working people and from other people of moderate means. The bulk of the deposits are in the money centers, but their source, like the sources of a great river, are not in the volume of the river itself, nor its larger branches, but in the little springs and raindrops that, unnoticed, form the rivulets; these in turn uniting to form the branches and finally the river itself. To test this my reader need but go to the savings and other banks of his own town. I know of one county with a population of less than twenty-five thousand—an agricultural county without a millionaire in it—whose deposits are well upward of a million. I know another county with a population of perhaps fifty thousand—one-third of whom are connected with the mechanical trades—whose deposits are three and one-half millions. This means, then, that the people who are withholding or withdrawing from active proprietorship the capital thus represented by bank credits, are not the rich, but the people of ordinary means; and it brings us to the next inquiry, What is the disproportion, if any, between the growth in general wealth and this growth of bank credits?

From 1880 to 1904, the population of the country (estimated since 1900) has grown a little over fifty per cent. From 1880 to 1904 (estimated again since 1900), the general wealth of the country—farms, farm implements, city real estate, corporate ownership, bank deposits, everything of every kind and nature—has grown as much perhaps as sixty per cent. In 1900 it was estimated by the government that an equal distribution of the wealth of the United States among its people in 1880, would have yielded to each about one thousand dollars, while such distribution in 1900 would have yielded about eleven hundred dollars. The growth of wealth per capita, therefore, during these two decades, was about ten per cent.

Now mark! During this same period, the amounts invested by our wage-workers and people of ordinary means, in bank deposits—that is, the amount withheld or withdrawn by them from active proprietorship, and left with the banking institutions to loan out to those skilled in the ways of corporations—have grown over five hundred per cent.

To illustrate: suppose a community in 1880 possessed a million dollars, one hundred thousand of which was in bank credits and the balance in other forms of property; suppose this same community is found in 1904 to have five hundred thousand dollars in bank deposits alone, or five times the former amount. One of two things is apparent: either the community's population and general wealth have grown proportionately—that is five hundred per cent—or the growth of the bank credits has been at the expense of proprietorship in other forms of active property. Now, what conclusion would be forced upon us if in that community the growth and general wealth was, not five hundred per cent, but only fifty per cent; or, taking the per capita growth as a nearer guide, only ten per cent? Could any one doubt, on such a state of affairs, what was taking place in the community? Can any one doubt, then, on the figures I have named, what is taking place respecting the proprietorship of the active properties of the country by the bulk of the people of the country?

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A Nation of Dependents

The transformation strikes deeper than mere economic conditions, or the natural laws that govern monopoly and competition. The transformation of the ownership of a country's industrial property, from its people generally, to a few of its people only, reaches the bed-rock of social and moral forces on which, alone, the whole structure of republican institutions rests; for, under such conditions, instead of depending, each on himself and his own intelligence chiefly for success, the great bulk of our people, increasingly, will become dependents upon others. Those who possess investible means will come to rely solely upon the great financial institutions; and those who possess nothing but capacity for labor, upon the great organizations of labor. That is paternalism; paternalism in almost its final form; the paternalism that will eventually divide the country into two hostile camps, the camp of those who have, and the camp of those who have not; the paternalism that speedily descends into actual state socialism, or a dry-rotted citizenship as nerveless and squalid as state socialism.

Here, then, in our own day, and at this early hour of the day, is the parting of the ways. Ahead lies the road to paternalism. To the left is the open road to state socialism. They look now like distinct ways, these two roads, over bogs and precipices all their own. But a little way ahead, within the distance that any clear eye can carry, the two roads meet.

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The Safe Road to Individual Proprietorship

It is only by a turn to the right, by what may seem to some a sharp turn, that our one safe pathway forward will be found. That way lies over high ground, *Individual Opportunity—the opportunity, actual as well as in theory, to each individual to participate in the proprietorship of the country.* That ground is, in its best and highest sense, republican ground. To gain that ground, the paramount problem is not how to stop the growth of property, and the building up of wealth; but how to manage it so that every species of property, like a healthful growing tree, will spread its roots deeply and widely in the soil of a popular proprietorship. The paramount problem is not how to crush, or hawk at, or hamper the corporation, merely because it is a corporation; but how to make this new form of property ownership a workable agent toward *repeopleizing the proprietorship of the country's industries.*

Judge Grosscup then proceeded to outline the steps which he deemed essential to the restoration of a popular proprietorship. The *third* of the steps for which he appealed, has a close relationship to our topic today:[1]

The third step is to *open to the wage-earner of the country the road to proprietorship.* The basis of every successful enterprise is the command: Go forth, increase, and multiply; and to no enterprise can rightfully be denied the fruits of that command. But capital is not the sole thing that enters into enterprise. The skill that puts the ship together, or that subsequently

[1] *McClure's Magazine,* March, 1905.

pilots her, is not the sole thing. The men who drive the bolts, and feed the fires, contribute; and to them, as to the capitalist, and to the captains and lieutenants of industry, should go a part of the increment; not as gratuity, but as their proper allotment out of the combined forces that have made the enterprise successful. Of course, to make such partnership between capital and labor a thing that *ought* to be done, is the work of the big hearts and big brains in the industrial field. But to make such partnership a thing that *can* be done, is the work of those who shall recast and regenerate the country's corporation policy.

* * * * * * * *

The day of regeneration will come—the day when some party of the people will cease to minimize, to compromise, to hide behind promises and looks; but, going to the root of the matter—the depeopleization of industrial ownership under present policies—will build from that point upward. That day will come, because higher and higher within the heart of our country is rising the voice, *What shall it profit us if we gain the world, and lose our soul?*

POPULAR PURCHASE AND HOLDING OF CORPORATE SECURITIES HAS NOT SOLVED THE WHOLE PROBLEM.

Mr. Harris, Mr. Williams, Mr. Binkerd, and others, have given you striking and significant figures as to the extent of the changes in corporate ownership since the period of which Judge Grosscup wrote. Especially since the World War, the habits and practices of millions of our people, as to saving and investment, have undergone radical change. This is the day of the small investor, and it has been said, with a great deal of truth, that the ownership of American industry "has passed from Wall Street to Main Street."

On the part of some observers, there has been a tendency to treat the multiplication of the number of shareholders as in itself a solution of the conditions arraigned by Judge Grosscup in 1905. Without in any way minimizing the importance of what has taken place and is still going forward, I think it must be recognized that the scattering of corporate ownership among great numbers of small shareholders has not yet wholly accomplished, and cannot in itself wholly accomplish, a restoration of the essentials of a genuinely popular proprietorship of American industry.

Almost as soon as the diffusion of corporate shareholdings became widespread, several factors became operative in the direction of what was called "the diminishing importance of ownership." On analysis, these factors appear to have been changes in the supposed prerogatives of ownership.

In the first place, the regulatory commissions, in the public-service industries, have been vested with broad powers to say what service shall be rendered, what extensions and additions to plant and facilities shall be made, what rates shall be charged, what forms of accounts shall be kept, what information and reports shall be made public, what forms of financing shall be resorted to for new capital. At least indirectly, the return on invested capital and the rewards of enterprise and creative genius have been limited and restricted, by the regulatory agencies. Subject only to review by the courts, "the final say" on many corporate matters, involving what shall be done with the corporate property, has been taken away from the directors and officers and given to public boards. Even in the industries deemed unaffected by a public interest, determination of many of the policies which formerly went with proprietorship has now been turned over to commissions or other public officers.

In the second place, the trade unions have asserted, and in many instances have established, a right to parity of participation in the decision of many industrial questions which once were deemed exclusive and God-given prerogatives of private owners. Where collective bargaining has paused or failed, in regulating wages, hours and conditions of work, legislation has often interceded, and has tended further to weaken the autocratic voices which once spoke with the authority of untrammeled ownership.

Defects of Corporate Share-holding as a Form of Popular Proprietorship.

To bring about the basic ownership of the major industries by tens of millions of bondholders and shareholders has been a long step forward; to make this large-scale corporate ownership the means of restoring a sense of genuine proprietorship is a task which has not been wholly solved.

The practical difficulties which soon arose were pointed out by Mr. Walter Lippman in 1914 as follows:[1]

> When a man buys stock in some large corporation he becomes in theory one of its owners. He is supposed to be exercising his instinct of private property. . . . He may never see his property. He may not know where

[1] *Drift and Mastery*, 1914, by Walter Lippman.

his property is situated. He is not consulted as to its management. . . . Compare him with the farmer who owns his land, the homesteader or the prospector; compare him with anyone who has a real sense of possession, and you will find, I think, that the modern shareholder is a very feeble representative of the institution of private property. . . .

The modern shareholder as a person is of no account whatever. It mattered very much what kind of people the old landlords were. But it matters not at all what kind of a person the shareholder is; . . . he has no genuine role in the conduct of industry. . . . Shareholding in the modern world is not adapted to the exercise of any civilizing passion. It is too abstract, too scattered, too fluctuating.

All this is a natural result of the large-scale corporation. In the partnership and firm, owners and managers are in general the same people, but the corporation has separated ownership from management. Ownership has been opened to a far larger number of people than it ever was before, and it means less than it used to. Each stockholder owns a smaller share in a greater whole.

In a more vivid emphasis than could be conveyed by any address or paper, Mr. John Galsworthy, in the play known as *Old English,* depicted and condition of "limited companies" as of 1905 and dramatized the persistent problem, in the person of the aged and astute Sylvanus Heythorp—divested of all property except his "qualifying shares", living upon his director's fees and dividing them with his unfortunate creditors, yet craftily manipulating shareholders' and directors' meetings that were as putty in his experienced hands. It soon became clear, and still remains clear, that to scatter the ownership of industrial corporations among a countless number of small investors does not in itself solve the whole problem. There remain constructive tasks, on which much progress has been made, but on which further progress is greatly needed.

As another writer said, concerning the social effects of the denial of real participation in the management and control of property:[1]

It has come about that the society which boasts of its reliance upon the freedom of individual self-development nevertheless allows only a limited proportion of its individual members to possess the freedom. It appeals to the moralizing influence of ownership, and then denies the possibilities of any real ownership to the main mass of its members.

OTHER CRITICISMS OF OWNERSHIP SEPARATED FROM LABOR AND MANAGEMENT

It may be a useful contribution to this discussion if I refer further at this point to other criticisms which have been

[1] Hobhouse, *Property, Its Duties and Rights,* p. 184.

made, concerning some of the conditions which this "popular ownership" movement has been hopefully designed to correct. In quoting these comments here, I do not pass upon their merits; I use them only as an aid in stating the problems which arose early in this transition and which to some extent still remain for constructive solution.

In the closing chapter of *Between Eras, from Capitalism to Democracy,* published in 1913, Dean Albion W. Small of the University of Chicago puts into the mouth of one of his characters the following resolve:

> We have several thousand employees who, in the aggregate, are as necessary to the Company as its capital. The business is those men's means of leading a man's life, and filling out a man's destiny. But there are men who own a share apiece of the Company's stock, to whom the law gives more right to say their say, and influence the Company's policy, than those thousands who have put their whole labor time for years into the service of the corporation. Now the democratic idea is that business is a product of all the workers, and that the legal status of all the workers should correspond with their share in creating and maintaining the business. It implies that there should be a corporate policy and a due process of law, without which no worker in the business could be put out of his job nor deprived of the voice in the business that belongs with the job, any more than the owner of a share of stock could be deprived of his stock and his vote. If I were authorized to put a meaning into that first clause, it would start this way: "We will make it a part of the business to find out how many instead of how few of its workers may have a property interest and a shareholder's voice in it, and also how the distribution of this property and influence may be made proportional with each man's service to the corporation."

Forestalling a New Form of "Absentee Ownership"

The separation of ownership from active participation in either physical labor or policy-determination and management, has been arraigned by unfriendly critics of the institution of private property as a new form of "absentee ownership". Mr. Thorstein Veblen made the charge, as recently as 1923, that:[1]

> Investment and corporation finance have taken such a turn and reached such a growth that, between them, the absentee owners large and small have come to control the ways and means of production and distribution, at large and in detail, in what is to be done and what is to be left undone. And the business interests of these absentee owners no longer coincide in any passable degree with the material interests of the underlying population, whose livelihood is bound up with the due working of this industrial system, at large and

[1] *Absentee Ownership and Business Enterprise in Recent Times: The Case of America,* by Thorstein Veblen (1923).

in detail. The material interest of the underlying population is best served by a maximum output at a low cost, while the business interests of the industry's owners may best be served by a moderate output at an enhanced price.

It was in fact charged, a decade ago, that:[1]

> The modern shareholder is not only an absentee; he is a transient, too.... With a few thousand dollars I can be an owner in Massachusetts textile mills on Monday; in Union Pacific on Tuesday. I can flit like a butterfly from industry to industry. I don't even have to use my judgment as to where I shall alight. All I have to do is to choose some well-known stockbroker and put myself in his hands.

If this cynical picture was true of what an individual *might* do a decade ago, I submit that it is not fairly descriptive of the way in which tens of millions of Americans have acquired, and now steadfastly hold, shares and securities which represent participation in the ownership of the industries of the country. I reiterate, too, that progress has already been made, toward improving the defects which developed in the early stages of this transition.

THE SEPARATION OF "ACCUMULATION" AND "COOPERATION" AS TO PROPERTY

When Mr. Graham Wallas, of the London School of Economics and Social Science, undertook, just before the outbreak of the World War in Europe, his "psychological analysis" of "the great society", he thought that "accumulation" and "cooperation" were being more and more widely separated under the forms of corporate administration of industry, to such an extent that the "pure individualism" which long had championed "unrestricted property rights" was then coming to represent, in England, "a rapidly shrinking body of opinion". He asserted that:[2]

> the substitution of concentration for competition has destroyed, in the largest and most characteristic modern industrial units, the old presumption (never very sound) of identity of interest between producer and consumer.

After pointing out several factors which had tended to separate accumulation and ownership from cooperation, labor, and management, Mr. Graham Wallas said:

[1] *Drift and Mastery*, by Walter Lippman.

[2] *The Great Society*, by Graham Wallas (1914).

The inheritor of shares in a large joint-stock business has normally little or nothing to do with its management. It is easier for a shareholder in Sir Edgar Speyer's company to prevent fares being raised by agitating politically for a general Minimum Fare Bill than by attending the annual meeting of his Company; and a clerical holder of brewery shares can vote more effectively for Sunday Closing as an elector than he can as a shareholder. But the present complete legal responsibility and actual irresponsibility of the shareholder are, in some of the largest and most important forms of industrial organization, not likely to remain unchanged. Either the main capital value of those companies which are intimately concerned with the public interest will come (as in America) to be represented by non-voting bonds and debentures, while voting power is concentrated in the hands of a "boss" who can negotiate with the holders of political power, or control by the State will so extend that the shareholder will become, as the East India stockholders became towards the close of the East India Company's existence, in fact the receiver of fixed interest on a State debt.

And, finally, even if the desire to accumulate for oneself and one's family were sufficient to secure both the maximum energy of the owners of modern capital and the direction of that energy towards the maximum good of the community, most men now have an uncomfortable feeling that that desire is not under present conditions sufficient to secure the best results from the working employee, who is no longer either a son of the employer or an apprentice adopted into the employer's family and expecting to become an employer himself.

THE "ADMINISTRATION OF INDUSTRY BY AGENTS OF FUNCTIONLESS SHAREHOLDERS"

Other students of British industry have been asking:[1] "What form of management should replace the administration of industry by agents of functionless shareholders?"

In support of his attack on an "acquisitive society" in which workers do not share in ownership or management and owners do not share in management but act only through what he regarded as irresponsible corporate agents, Mr. Richard H. Tawney wrote, in 1920:

Property is not simple but complex. That of a man who has invested his savings as an ordinary shareholder comprises at least three rights, the right to interest, the right to profits, the right to control. In so far as what is desired is the guarantee for the maintenance of a stable income, not the acquisition of additional wealth without labor—in so far as his motive is not gain but security—the need is met by interest on capital. It has no necessary connection either with the right to residuary profits or the right to control the management of the undertaking from which the profits are de-

[1] *The Acquisitive Society,* by R. H. Tawney (1921), fellow of Balliol College, Oxford; late member of the Coal Industry Commission.

rived, both of which are vested today in the shareholder. If all that were desired were to use property as an instrument for purchasing security, the obvious course—from the point of view of the investor desiring to insure his future the safest course—would be to assimilate his position as far as possible to that of a debenture holder or mortgagee, who obtains the stable income which is his motive for investment, but who neither incurs the risks nor receives the profits of the speculator.

* * * * * * * *

The truth is that whereas in earlier ages the protection of property was normally the protection of work, the relationship between them has come in the course of the economic development of the last two centuries to be very nearly reversed. The two elements which compose civilization are active efforts and passive property, the labor of human things and the tools which human beings use. Of these two elements those who supply the first maintain and improve it, those who own the second normally dictate its character, its development and its administration. Hence, though politically free, the mass of mankind live in effect under rules imposed to protect the interests of the small section among them whose primary concern is ownership. From this subordination of creative activity to passive property, the worker who depends upon his brains, the organizer, inventor, teacher or doctor suffers almost as much embarrassment as the craftsman. The real economic cleavage is not, as is often said, between employers and employed, but between all who do constructive work, from scientist to laborer, on the one hand, and all whose main interest is the preservation of existing proprietary rights upon the other, irrespective of whether they contribute to constructive work or not.

If, therefore, under the modern conditions which have concentrated any substantial share of property in the hands of a small minority of the population, the world is to be governed for the advantage of those who own, it is only incidentally and by accident that the results will be agreeable to those who work. In practice there is a constant collision between them.

POPULAR OWNERSHIP IN GREAT BRITAIN

Nevertheless, despite the forebodings of Messrs. Wallas and Tawney, the same tendency we discuss here today has been lately operative in Great Britain. In that country of 45,000,000 of population, there are now at least 15,000,000 persons who share in the ownership of its enterprises, according to a recent cable disptch to *The New York Times,* summarizing an address by Walter Runciman, M.P., as to the distribution of wealth in Great Britain.

Deposits in post office savings banks at the end of 1924 amounted to £280,000,000, and that sum was not the property of a rich half-million, but of 12,300,000 separate persons, he pointed out, according to the *Times* dispatch. Other provi-

dent institutions showed deposits bringing up the total to £362,000,000, the property of 14,500,000 small investors.

"It was safe to assert," said Mr. Runciman, "that as its small investors alone by their persevering accumulations of small savings had amassed and held the stupendous total of £777,834,000 in the firmest financial security in the world, and the holders numbered more than 15,000,000 of our people, the 15,000,000 capitalists' capital had not been destroyed by labor. It had become, in its most gilt-edged form, to an amazing extent the property of labor, as well as of the bourgeoisie. This was all to the good, and might Heaven grant rapid and continuous growth in the number of capitalists."

Action of the American Federation of Labor At El Paso Last November

An important aspect of this subject is of course the attitude and policy of organized labor toward extension of trades-union ownership and operation of banks, insurance concerns, and other industries. At the 1923 convention of the American Federation of Labor, held in Portland, Oregon, the president was directed to investigate the advisability of trades-union ownership and operation of insurance funds for their workers, and to submit recommendations whether the Federation or individual trades-unions should enter that field of ownership. President Gompers appointed as a committee to make such an investigation and recommendations Messrs. Matthew Woll, president of the Photo-Engravers' Union, and George W. Perkins, president of the Cigarmakers' International Union of America.

At the 1924 meeting of the Federation in El Paso, Texas, the report of this special committee, and the report of the Executive Council concerning such report, were submitted to the convention. In the absence, from this Academy meeting, of those who had been invited to present the views of the American Federation of Labor as to "trades-union ownership of industry", reference may appropriately be made to the proceedings of the 1924 convention. The report of the special committee reviewed the history of the insurance business and the development of "group insurance" in considerable detail, and said in part: [1]

[1] *Report of Executive Council of the American Federation of Labor to the Forty-fourth Annual Convention*, pp. 30 to 35.

Self-reliance and independence, self-help and cooperation among the workers in their own interests would be certainly increased by the wage earners providing their own insurance rather than depending on the humanitarian impulse of employers. Self-reliance and independence are essential characteristics of American citizenship.

* * * * * * * *

Your committee makes no definite recommendations as to the form our insurance enterprise shall assume. We have been convinced and fully persuaded that it is not only advisable and safe but almost the duty of the unions jointly to adopt some form of proper insurance. However, we are opposed to have the American Federation of Labor as such actually engage in the insurance business.

The Executive Council of the Federation submitted this report to the convention "for your favorable consideration and action", saying, in part:[1]

Insurance, speaking of all kinds collectively, may be defined as the science of sharing economic risks. There are two types of values, viz.: Human life values and property values. One group of insurance covers life, accident, health, compensation, liability, etc., and pertains to life values; another group of fire, marine, credit, bonding, etc., to property values, but whatever the form which we have in mind, insurance represents a great living force that reaches out in every direction to serve mankind wherever values are subject to loss. It renders this service either by way of prevention or indemnification. It is a great economic factor of safety, which changes uncertainty into certainty. Without it, it would be impossible for business to function with any degree of certainty or safety.

* * * * * * * *

Trade unions have been keenly alert to the science of sharing economic risks, and in a more or less complementary fashion have provided fraternal insurance covering in part the losses sustained due to loss of life values. However, this field of indemnification has far exceeded all human expectations and has rapidly assumed a proportion and form that bids fair to become the most potent and influential agency in all our affairs of today and especially in the field of industrial relations unless essential counter-balancing agencies are established to protect the rights, interest, influence and power of the wage earners.

On the subject of "banking and credit", the Executive Council reported to the Federation as follows:[2]

The organizing and operating of banking institutions by trade unions and trade unionists has continued to make progress during the past year.

[1] *Ibid.*, pp. 30 and 31.

[2] *Ibid.*, pp. 28 and 29.

There are at present twenty-three labor banks in operation, some of them sufficiently long enough to demonstrate the remarkable power possessed by them to pool the earnings and savings of the workers, to accumulate large deposits and so to manage these funds in a manner helpful to the wage earners and the trade union movement. It is estimated that the total resources of labor banks in this country exceed sixty million dollars.

Labor, in this new field of activity, has not passed the complete period of experimentation and upon those in whose care the continued successful administration of these banking ventures depends, there rests a great and grave responsibility not alone in the proper safeguarding of funds entrusted into their care, but to maintain the integrity of labor's ability and competency to participate in all the different spheres of business life.

We repeat, what was reported a year ago, that the power and control of credits are of the utmost importance in our present every-day life. Banking and credit are as inseparable as life and air. Unfortunately, credit, as now administered, too often serves to increase unearned incomes at the expense of earned incomes and constitutes a burden upon essential and necessary industry. It is not anticipated that labor banks can or will correct this evil. This can be accomplished only through a properly constituted and efficiently managed public agency. Labor banks, however, are a nearer approach to the people's needs and requirements than banking institutions dominated by the atmosphere and practices that prevail in Wall Street. The Executive Council, however, again warns organized labor and its membership against the hasty formation of labor banks and calls attention to the need of the most careful investigation and survey of all conditions surrounding such ventures.

While some of our national unions, many of our local unions have organized and are now operating banks where the majority of the stock and entire policy and control are under the supervision of union members, there are other types of stock offered for sale to our unions and their members, by securities, investment and holding companies with the inference that they are buying shares of stock in a bank. This is a type of investment about which we wish to warn the membership of our organizations, for the reason that the business of these securities, investment or holding companies is not subject either to the national or state laws and their policies are therefore in the hands and control of those operating the companies without any necessity for rendering official reports or being subject to examination and regulation in the same way that banks now have to follow rules and regulations of either the federal or state governments.

Some of our central bodies have already taken definite action with reference to these securities, investment and holding companies, and have warned their unions and the rank and file of their organizations to be exceedingly careful when approached about such an investment.

Too much care, time and attention can not be given to the above suggestions, for after all, our unions must keep in mind that handling other people's money is a sacred and public obligation.

At the El Paso convention, its committee to consider and

report upon all of the recommendations of the executive Council, reported as follows, on the subject of "banking and credit":[1]

As is indicated in the report of the Executive Council on the subject of banking, the American wage earners and their trade unions are not inclined toward the Marxian theory of government. To the contrary, they are manifesting a constantly growing interest and participation in the institutions dependent upon private and cooperative initiative and personal and group adventure.

Justification for this allegation is well illustrated in the strides made by labor banking institutions and the increasing confidence manifested in them by the wage earners, their friends and sympathizers. While expressing good will and support to these enterprises of labor, to assure continued and permanent success it is essential that the greatest possible care and caution be exercised by the institutions now in existence. More particularly is this true of like institutions in the making or in contemplation.

This new venture of labor has already attracted its adventurers and exploiters. We cannot emphasize too strongly a word of caution and for the need of painstaking research, intelligent study, and discriminating care and judgment in the undertaking of new and additional labor banking institutions.

We express full agreement in the judgment of the Executive Council for the need of controlling credit through a properly constituted and efficiently managed public agency. Private and unregulated or uncontrolled credit has served altogether too well those who would increase unearned incomes at the expense of earned incomes. This is an unnecessary and undesirable burden upon the industry and life of our people and should be removed.

The warning against the investment by trade unions and trade unionists in so-called investment or holding companies, is both appropriate and timely. Such institutions as these present risks and difficulties that cannot and must not be overlooked. Indeed, labor's activities should be more nearly confined to practices and ventures that will not in any way destroy or lessen the efficiency of the trade union character of the American labor movement.

Your committee recommends full accord in and approval of this part of the Executive Council's report.

The above quoted report of the committee was adopted by the convention.

On the subject of trades-union insurance, the committee reported in part as follows:[2]

Under the caption of "Insurance," the Executive Council submits for consideration and disposition the investigation and recommendations of a

[1] *Report of Proceedings of American Federation of Labor* for November 24, 1924, pp. 259 and 260.

[2] *Ibid.*, pp. 266 and 267.

special committee on insurance. Before venturing into an analysis of this report, your committee recommends appreciation and thanks be given to Messrs. Matthew Woll and G. W. Perkins for the extensive survey made, the time and effort contributed and for the enlightenment presented on this subject.

Commenting briefly on this report of the special committee on insurance, your attention is directed to the fact that nearly all international and national unions provide some form of fraternal insurance or mortuary benefits; that all such ventures are predicated upon the step rate or assessment plan, which existed in some form or other in all early attempts of fraternal and many privately conducted insurance companies, which in the last analysis and final results proved to be complete and disastrous failures. These failures were inevitable, because of lack of scientific methods in calculating risks involved and essential premiums required to assure success.

* * * * * * * *

Your committee is favorably impressed with the proposal that organized labor should engage in a joint insurance enterprise, owned and controlled by organized labor, based upon the American experience table of mortality, and safeguarded so as to protect fully the rights and interests of every member insured.

We heartily endorse the principle involved and recommend that national and international officers study carefully the report of the special committee on this subject. It is further recommended that the president of the American Federation of Labor be authorized and directed to call a voluntary conference of all national and international officers within the coming year, for such action on this important proposal as shall appeal to the best judgment of those attending and as may be within their power to do. This authorization and direction shall also include the continuance of the special committee on insurance for the purpose of gathering and collating such additional material facts, opinions and judgments as will prove helpful to the proposed conference and the further consideration and disposition of this most important subject.

When a motion had been made and seconded to adopt the report of the committee, the following significant colloquy took place:[1]

Vice-President Green: I want to ask, as a matter of information for the delegates, whether or not the committee recommends that the American Federation of Labor commit itself to the organization of a life insurance company? Or whether or not the committee recommends that international or national unions shall obligate themselves to become part and parcel of this program which has for its purpose the organization of an insurance company by the American Federation of Labor?

Secretary Woll: Responding to the first question. The adoption of the committee's report does not bind the American Federation of Labor to any

[1] *Ibid.*, pp. 267 and 268.

insurance proposal. It does endorse the principle of insurance to be considered by the international and affiliated organizations of the American Federation of Labor.

The second, as to whether the international unions herein assembled, by the adoption of the report, are bound to any insurance proposal, I want to say there is no binding power in the committee's report. The committee's report urges that a conference be called later on of such national and international officers as are interested in the subject, and for them to consider it and decide whether they want to give further consideration to it or not, and the form the consideration shall take. The report specifically states that the American Federation of Labor shall not be bound nor be a party to any such arrangement.

Vice-President Green: I am not certain whether or not the American Federation of Labor is ready to commit itself in principle, even to an organization of an insurance company, or to an insurance program. The whole subject involves a matter of very vital consideration. It is so comprehensive that it cannot be passed on lightly. This subject was discussed pretty thoroughly when the report of the Executive Council was prepared, and I recall that it was the opinion of a majority of the members of the Executive Council that it would be unwise at this time to commit the American Federation of Labor, either directly or indirectly, to a comprehensive insurance program.

My purpose in asking these questions was to bring to the attention of the delegates the recommendation of the committee. While the secretary of the committee explains that it does not commit the American Federation of Labor to any specific plan of insurance organization, it does commit as to the principle.

I can distinguish but a very indistinct line between committing an organization to some specific program and committing the organization to such program in principle. I imagine there is very serious doubt in the minds of most delegates here as to the wisdom of such a step. You may feel favorably inclined to the idea, but you are not so sure the memberships you represent are ready to embark upon such an adventure. The calling of a conference of the national and international officers involves a consideration of the subject, but the committee's report would commit us to the principle even in advance of calling such a conference.

Secretary Woll: I do not understand that Delegate Green speaks in opposition to the committee's report. The trade union movement, whether we want to acknowledge it or not, has practically committed itself to the proposition of insurance, because almost all international unions at the present time provide life insurance in some form. Whether we style it mortuary benefits, graded benefits, or whatever terminology may be used, the overwhelming majority of international unions today provide insurance on the death of members.

It is urged, because a number of international unions have been compelled to study this problem during the past few years, and I am convinced as years go on, that others will likewise be compelled to study the problems of their insurance features; it is but right and proper that we should attempt

to secure a conference of international unions for the purpose of discussing the insurance they have, the successes or failures, the weaknesses or strengths, and then consider the possibility of such a venture as has been suggested by the committee's report.

When the conference is called, if it is the judgment of the conference that the campaign is unworthy, that decides it; if the conference decides there is merit in it, then indeed will we have been of assistance, in bringing this report to them. The report does not involve the American Federation of Labor itself but distinctly eliminates the American Federation of Labor as a participating body or to be bound in any way whatever.

The report of the committee was thereupon adopted by the convention. Vice-President Green has subsequently become the president of the American Federation of Labor.

The Attitude of State and Federal Regulation

At the 1924 meeting of the National Association of Railroad and Utilities Commissioners, its standing Committee on Public Ownership and Operation presented its report,[1] through the Honorable Ezra B. Whitman, Chairman of the Maryland Public Service Commission. In this report, adopted by this great national organization of all the State officers whose duties are the regulation of the rates, service and capitalization of enterprises "affected with a public interest", the following conclusion was set forth as to the subject-matter of to-day's conference:

We are rapidly working toward popular ownership of our utilities, not toward government or political ownership. Customer ownership is distributing the ownership of the plants to the actual customers throughout this country. They become the owners, controllers and judges of their own property. The movement is democratic, just and fair and has the greatest promise for future economic development to meet the growing needs of our country.

Approximately 2,500,000 American citizens directly own the securities of electric light and power companies. This large ownership extends into every public utility operation. The securities are very widely distributed, as is evidenced by the fact that the average holding for each customer does not exceed seven shares. More than 90 per cent of the employees of public utility companies selling securities to their customers are owners and partners in the public utility with which they are affiliated.

Not only are such customers becoming the direct owners, but it is well known they long have been to a large extent the invisible or indirect owners

[1] *Proceedings of National Association of Railroad and Utilities Commissioners*, 1924.

of the public utilities. The securities of public utilities are the investment funds for insurance companies and savings banks. The matter is of such importance to every policy holder that insurance executives are calling the attention of their policy holders to the situation.

In this connection, the report presented by Chairman Whitman called attention to the fact that according to the statistics then available (to the end of 1922), 246 life-insurance companies doing business in the United States had 76,598,612 policies in force, insuring probably more than half the population of the country, and that more than $11,000,000,000 of the moneys of these policyholders were then invested in the property of the primary industries of the nation. The committee further quoted with approval the following message sent by Mr. Haley Fiske, president of the Metropolitan Life Insurance Company, the largest life-insurance company in the world, to its millions of policy-holders:

> When an electric light and power corporation is unfairly treated, it is the people of the community, the voters and their dependents, who suffer. It is their savings that are depleted.
>
> It must be recognized that *not corporate abstractions* but the *American people* are the owners of the bond capital of the companies. Every policy holder is *ipso facto* a capitalist, and an attack upon capital investments is an attack upon the wage-earners of the country. It is the working people who suffer first when there is lack of service afforded by public utility corporations, because it is they who are chiefly dependent upon such service. It is their capital invested through banks and insurance companies which develops this service for the people. It is the poor and the people of moderate means whose aggregate savings are invested in these enterprises.
>
> The ownership of the electric light and power companies is now in the hands of more than 2,000,000 direct investors in public utility stocks, and indirectly in the hands of millions more of bank depositors and holders of life insurance policies through their ownership of public utility bonds. This is true people's ownership under proper public regulation.

As to the added responsibility which this change in ownership is bringing to the new generation of operators and administrators of public utility and industrial enterprises, the committee report significantly quoted the following from Secretary Hoover:

> The new generation of administrators of these enterprises has firmly grasped its responsibility to the public. Indeed, there are deep and promising currents originating in our economic life driving toward a mutualization of public and private interests, employer and employee inter-

est, with promise of a new period in industrial development. There has been a genuine growth in business conscience and service, and this growth is far more precious than any amount of legislation. Of those occasional individuals who fail to manifest this sense of public responsibility, I could speak with bitterness, for they are the real stimulators of Socialism. Such men give the cause for the despair that Government ownership is the only relief from their actions. But we do not put the whole people in jail because of occasional murders.

Speaking before the mid-year meeting of the American Electric Railway Association in Washington a few weeks ago, the Honorable John J. Esch, who became a member of the Interstate Commerce Commission after a long and distinguished service as a member of Congress, commented upon the action taken by the New York Central Railroad system, along lines discussed from the Academy platform by Vice-President Harris this morning. Commissioner Esch said: [1]

You have a right also to try to secure ownership in your securities, on the part of your employes and the patronizing public. Have you noticed the result of an experiment tried by the New York Central last week? It put out 35,000 shares of its stock, par value $100; first chance of purchase by employes. There were over 42,000 applicants for the stock. The company doubled the amount of the stock that could be subscribed, and the company today has 42,000 more stockholders than it had two weeks ago, and it has disposed of $6,800,000 in stock at par. What is the significance of that? It means that 42,000, practically one-fourth of the employes of the New York Central System, now have a financial stake in the success of the great railroad.

No doubt you are doing that yourselves without suggestion from me, but it is being done by other great railroads, steam roads, and it is worthy, I think, of favorable consideration on your part.

The "Rights of Property" are the "Rights of Persons"

To appraise the significance of property ownership as a social force, it is not at all necessary to enter upon any metaphysical or historical discussion as to the nature or derivation of the rights of persons of property,[2] or to announce adherence to any theory of "absolutism" in property rights. The most

[1] *Aera*, March, 1925, pp. 1366-67.

[2] An excellent starting-point for the consideration of the subject from such an angle would be found in the chapter on "Property," in *An Introduction to the Philosophy of Law*, by Dean Roscoe Pound (1924).

utilitarian and modern of conceptions, looking upon private property merely as "wise social engineering," will, it seems to me, lead to an almost equal appraisement of the potentialities of the facts which the Academy is discussing.

Nor is there warrant for assuming that this movement for popular ownership seeks to make resolute "stand-patters" out of American workmen or to attach their allegiance to ancient concepts of the rights of property. Granting that the owner of productive capital is less likely to join in destructive agitation for its appropriation or confiscation, I do not believe that anyone is justified in believing that property-owners are of necessity transformed by economic self-interest into reactionaries or obstructionists of progress. If I read American history aright, I think the conclusion is warranted that property ownership improves the independence and stability of our citizenship, but does not dull or destroy the forward-looking instincts of our people. The progressive improvement of American political, social and economic life has often found its staunchest support in those areas where the ownership and control of property has been wost widely diffused. Property ownership may tend to make a man or woman a better American citizen, without making him or her a blind and stubborn reactionary.

In fact, the advocacy of the fundamentals which we have been discussing has often been coupled with a most advanced outlook upon the future of the very institution of private property. Such an opinion was expressed in 1909 by Mr. Herbert Croly:[1]

> There are two indispensable economic conditions of qualitative individual self-expression. One is the preservation of the institution of private property in some form, and the other is the radical transformation of its existing nature and influence.

As was said by Dr. Richard T. Ely[2] in 1914:

> For man, at all events, his property is something he can rely upon as a permanent home, permanent means of subsistence or enjoyment. Property is thus an integral element in an ordered life of purposeful activity. It is, at bottom for the same reason, an integral element in a free life. . . . Some measure of property appears in short to be the essential basis of life.

[1] *The Promise of American Life*, by Herbert Croly (1909).

[2] *Property and Contract*, by R. T. Ely, pp. 308-309.

The indisputable fact of course is that historically in free America, property ownership has been closely identified with human happiness and prosperity and the orderly progress of American life. It was no accident that in the Constitution of the United States and the constitutions of the several states, the protection of persons and the protection of property were dealt with in the same paragraphs and in almost identic language. Through all of the years, the winning of a share in property ownership has been recognized as bringing something of economic independence and freedom, as ending the most nagging of worries, as bestowing a sense of security mingled with responsibility, and as ameliorating the instinctive revolt against things as they are. There has come instead a disposition to conserve what is good and to strive zealously to improve conditions without inflicting reprisal or destruction. Perhaps most of all, property ownership in America has tended to inculcate a spirit of fair play, mutual regard, and the sense of reciprocal responsibility which comes from a realization of the hazards and the difficulties of carrying on productive enterprise under modern conditions. As De Tocqueville phrased it, ninety years ago: "As everyone has property of his own to defend, everyone recognizes the principle by which he holds it."

All of this, of course, has nothing in common with any obstinate resistance to industrial and social progress; it has very much in common with the conservation of the best in American life, as to both persons and property.

In the Hewitt lectures at Cooper Union in 1915, under the auspices of Columbia University, Dean Harlan F. Stone of the School of Law very pertinently said:[1]

> Property, as such, has no rights. *What we loosely call rights of property are rights of individuals against other individuals with reference to things.* Property has no existence apart from law, and the great distinction between the lawless or savage community and the civilized community is that in the latter the law recognizes and protects the rights of individuals to the use and enjoyment of things and thus brings the legal conception of property to the use and service of mankind. This conception is as essential and as potent in the protection of the workman's pay envelope as it is to the security of the fortune of the millionaire. Impair the "rights of property"

[1] *Law and Its Administration*, by Harlan F. Stone, LL.D. (Columbia University Press).

—that is to say, the right of individuals to the lawful use and enjoyment of things—and you strike at one of the great foundations on which civilized society rests. In saying this I do not wish to disparage a proper comparison and weighing of the rights of individuals with respect to things, with their purely personal rights, but to emphasize that the so-called "right of property" is itself nothing but a personal right, the recognition of which marks the beginning of civilization and the transition from the lawless to the lawful community. Even those rights which we regard as individual or personal as distinguished from the "rights of property" are measured in terms of property. If A's rights are interfered with, regardless of their nature, that is, whether they are property rights or mere personal rights, the only relief which a court of law can give him is a judgment that the defendant pay the plaintiff money or deliver to him some other kind of property.

Property, therefore, in legal contemplation, is the standard of value by which man's rights are measured. . . . If the standard is deprived of its attributes, the right itself, regardless of whether it be a right of property or not, loses some measure of the protection afforded to it by the law. By this I do not mean to say that the law may not properly regulate or limit the use of property, according to whether or not its use interferes with social order and well-being. A great deal of the substance of law relates to just such regulation and limitation of the lawful use of property. But a point I would emphasize is that *in the last analysis there is no such thing as rights of property as distinguished from the rights of man, and that, therefore, courts and legislatures cannot impair the right of use and enjoyment of things without ultimately producing some interference with the rights of men in relation one with another.*